TELEGLOBE 1998 annual report

WHAT A DIFFERENCE A DAY MAKES

NOVEMBER 10

Table of contents

Every day is a new opportunity in the dynamic global telecommunications industry.

Liberalization, market globalization and the Internet explosion are combining with technological advances to fuel exceptional growth in demand for voice and data services. Guided by a clear vision, Teleglobe is strategically positioned to leverage its international presence and know-how to capture increased market share.

Our opportunities are global. Teleglobe owns one of the world's most extensive intercontinental networks, complemented by telecommunications licenses and operating authority in 23 countries.


imagine
365

Financial highlights

All amounts are expressed in millions of U.S. dollars (except share data) and derived from audited U.S. GAAP consolidated financial statements showing the combined results of operations, cash flows and financial position of Teleglobe and Excel, after giving effect to the pooling, for all periods presented. The financial highlights should be read in conjunction with these statements which are included in this report.

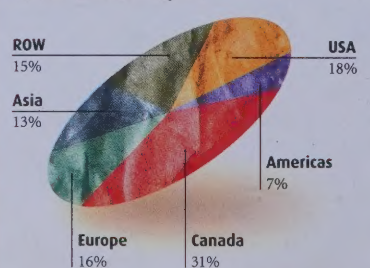
	1998	1997
Revenues	**$3,388.9**	$2,914.2
Operating expenses[1]	**3,299.8**	2,671.9
Operating income[1]	**89.1**	242.3
Income from continuing operations[2]	**14.9**	51.5
Net income[3]	**14.9**	111.3
Net cash provided by activities of continuing operations	**297.9**	296.6
Total assets	**3,142.6**	3,270.2
Long-term debt	**702.1**	794.0
Shareholders' equity	**1,537.2**	1,476.4
Per share[4]		
Basic earnings per share		
Continuing operations before change in accounting principle	**$ 0.04**	$ 0.49
Net income to common shareholders	**0.04**	0.46
Diluted earnings per share[5]		
Continuing operations before change in accounting principle	**0.04**	0.48
Net income to common shareholders[6, 7]	**0.04**	0.46
Dividends per common share	**$ 0.13**	$ 0.12

(1) Includes $(257.1) in 1998 and $(138.3) in 1997 of other operating items (see Note 5).
(2) Includes cumulative effect of change in accounting principle of $(65.2), net of income taxes, in 1997.
(3) Includes in 1997 a loss from discontinued operations and a gain on disposal of discontinued operations of $5.4 and $65.2, respectively, net of income taxes.
(4) Earnings per share for 1998 and 1997 have been adjusted to give effect to the two-for-one stock split effected June 15, 1998.
(5) Diluted earnings per share reflect the dilution that would have occurred if all second (applicable for 1997 only) and third series preferred shares with a dilutive effect had been converted into common shares and all stock options exercised as of January 1.
(6) In 1998, after-tax other operating items of $152.8 (pre-tax $257.1) had a negative impact of $0.60 on the diluted net income to common shareholders.
(7) In 1997, after-tax other operating items of $91.2 (pre-tax $138.3) had a negative impact of $0.39 on the diluted net income to common shareholders. The cumulative effect of the change in accounting principle, which amounted to $65.2 net of income taxes, had a negative impact of $0.28, while net discontinued operations of $59.8 million, net of income taxes, had a positive impact of $0.26.

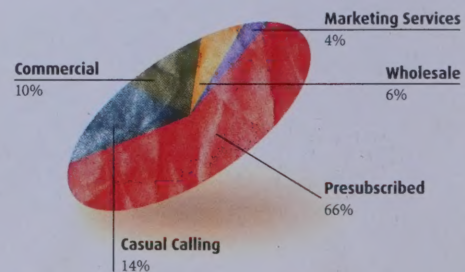
Market segment revenues by geographic area in 1998

Global wholesale revenues

(inbound allocated to regions)

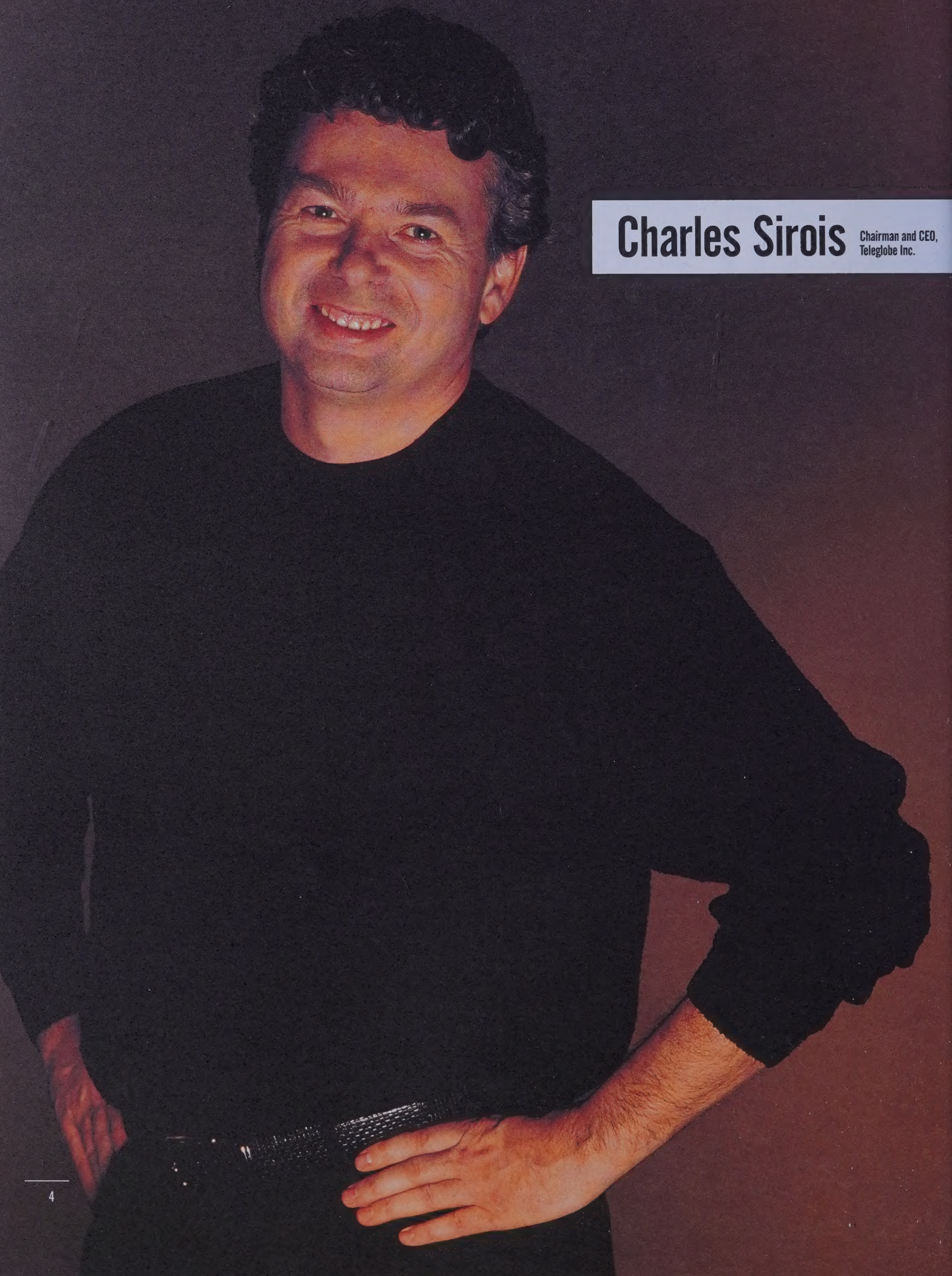


U.S. residential and commercial revenues



NOVEMBER
10

ON NOVEMBER 10, 1998, **Teleglobe** CHANGED FOREVER. ON THAT DAY, WE JOINED FORCES WITH **Excel Communications** TO CREATE A GLOBAL TELECOMMUNICATIONS COMPANY TARGETING GROWTH OPPORTUNITIES WORLDWIDE. TELEGLOBE REACHES 240 COUNTRIES AND TERRITORIES WITH STATE-OF-THE-ART TELECOMMUNICATIONS SYSTEMS. THROUGH PROVEN DISTRIBUTION METHODS, OUR COMMON VISION IS TO SERVE RESIDENTIAL, COMMERCIAL, WHOLESALE VOICE AND DATA CUSTOMERS AROUND THE WORLD.



Charles Sirois Chairman and CEO, Teleglobe Inc.

In 1998, we transformed Teleglobe

We significantly expanded the worldwide customer base and local presence of our core international telecommunications business. The merger with Excel Communications strengthened our U.S. position and added a powerful retail distribution capability for penetrating offshore markets over the coming years. Teleglobe became a truly global company, better equipped to seize tremendous worldwide opportunities in a dynamic industry.

TELEGLOBE

A picture is worth a thousand words, and our new logo illustrates Teleglobe's transformation into a truly global player. The stylized globe underscores our worldwide presence and focus as we continue to penetrate markets around the world. Blue is the color of our planet, which Teleglobe brings closer together with industry-leading network reach and a broad range of global connectivity solutions.

Our consolidated revenues increased to nearly $3.4 billion in 1998, reflecting the merger with Excel as well as internal growth. Net income was $14.9 million, or $0.04 per share; excluding non-recurring items and non-core operations, it totaled $255.8 million, or $0.99 per share. This compares with revenues of $2.9 billion and on a recurring basis, net income of $221.1 million, or $0.93 per share, in 1997.

365 days of growth

Teleglobe Communications Corporation (TCC) further reinforced its global reach in 1998. Licenses were obtained in ten additional countries, giving us licenses or operating authority in 23 countries. We also opened several new business offices for a total of 40 in 31 countries.

Total international long distance minutes increased by 30% to 3.6 billion, with traffic growth of 151% and 43% in the United States and Europe, respectively. Aggressive cost management allowed profitability to keep pace with rising traffic in an environment of declining prices. Revenues from transmission and data services, including international Internet traffic, rose 59% to $200 million.

Excel positioned itself for increased profitability and growth by completing the migration of its U.S. long distance traffic to its own facilities. This transition to a state-of-the-art network, acquired in late 1997, reduced operating costs and increased pricing flexibility and product branding capability. Excel carried 11.8 billion minutes of U.S. long distance traffic during the year.

A world of opportunity

Liberalization of telecommunications markets is proceeding at a brisk pace, opening vast new markets. Although competition is also increasing, TCC has a proven low-cost structure and Excel provides us with cost-efficient distribution methods for penetrating retail markets.

International long distance traffic is growing 15% annually, according to industry research. With our customer base of 450 carriers in more than 150 countries and global network of state-of-the-art fiber-optic undersea and terrestrial cable systems, as well as satellite transmission facilities, we are well positioned to gain market share. Our challenge is to reduce transmission costs in line with declining prices while continuing to offer high-quality, innovative products and services.

Charles Sirois and Kenny Troutt at "Excelebration 1998".

The worldwide Internet access market is a rapidly growing multi-billion dollar business. In record time, we have built a large customer base of Internet Service Providers in more than 90 countries by supplying connectivity to and from North America. Current investments in new high-capacity routers and transmission capacity are making our North American backbone one of the most robust and best connected in the industry, positioning Teleglobe to benefit from explosive increases in Internet traffic in the coming years.

With Excel, we are targeting revenue growth from an established base of several million residential customers through the introduction of new long distance products and dial-up Internet access services. We are also adapting Teleglobe's successful international long distance products for sale through Excel's network of Independent Representatives (IRs). Excel's commercial retail business has developed strong growth momentum that will be nurtured through new products, including the introduction of dedicated Internet access. We expect commercial service revenue to continue its increase as a proportion of Excel's total U.S. revenue in 1999.

Outside the United States, we will implement Excel's relationship marketing method in other countries, starting in early 1999 in Canada, a market we know well. We are proceeding with care to achieve impeccable execution, while developing an implementation blueprint that can be adapted to other markets. We will subsequently enter retail markets in other G7 countries – France, Germany, Italy, Japan and the United Kingdom – by leveraging our local experience and physical presence. Our objective is to gain a 3-5% retail market share in each country.

The achievement of these and other objectives will further reinforce our ability to sustain revenue and earnings growth in 1999 and going forward.

In 1998, we increased our ownership in the ORBCOMM Global partnership to 50%, reflecting our confidence in the market potential of low-Earth-orbit satellite communications. The ORBCOMM satellite system is designed for specialized data and messaging services, an addressable worldwide market estimated at 160 million subscriber terminals. ORBCOMM has successfully launched its constellation of 28 satellites, including 18 in 1998, allowing full focus on marketing and commercial deployment. We believe this investment represents a hidden long-term value on our balance sheet.

Office of the Global Executives

From left to right:

Charles Sirois
Chairman and Chief Executive Officer,
Teleglobe Inc.

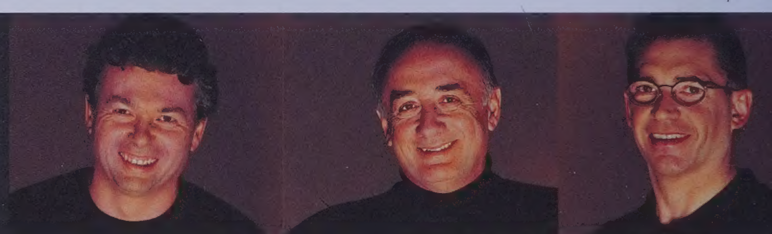
Paolo Guidi
Chairman and Chief Executive Officer,
Teleglobe Communications Corporation

Kenny A. Troutt
Vice Chairman, President and
Chief Operating Officer, Teleglobe Inc.
Chief Executive Officer and Founder,
Excel Communications, Inc.

Claude Séguin
Executive Vice President, Finance
and Chief Financial Officer, Teleglobe Inc.
Chairman and Chief Executive Officer,
Teleglobe World Mobility

Guthrie J. Stewart
Executive Vice President,
Global Development, Teleglobe Inc.

Nicholas A. Merrick
President and Chief Executive Officer,
up2 technologies inc.
Executive Vice President, Business Development,
Excel Communications, Inc.



A unified organization

Our global operations and North American retail operations are naturally very complementary, with each subsidiary possessing specific strengths and market knowledge. We do not face the integration challenges typical of mergers, since TCC and Excel address distinct market segments with virtually no overlap.

To guide Teleglobe forward, we have expanded the Office of the Global Executives to include Kenny A. Troutt and Nicholas A. Merrick, along with the existing members: Paolo Guidi, Claude Séguin and Guthrie J. Stewart. This senior group, of which I am a member and Chairman, provides leadership in overall corporate strategy and key operational areas. It allocates capital and ensures that our organization holds common values, principles and objectives.

New shareholders, new directors

The past year marked several changes in Teleglobe's shareholder base and Board of Directors. I welcome the former shareholders of Excel who received Teleglobe shares as

part of the merger transaction. I assure you that when it comes to shareholder returns, you are owners of a company in which value creation is the top priority.

Following the merger, A. Michael Hainsfurther, T. Allan McArtor, Marvin Moses, Gregory S. Oliver, Stephen R. Smith, Kenny A. Troutt and John M. Zrno joined the Teleglobe Board of Directors, with Mr. Troutt as Vice Chairman. The Board also welcomed two additional members, Bruno Ducharme and John A. MacDonald. These new directors and the incumbent members are experienced in their respective fields, resulting in a strong Board to support Teleglobe's growth and represent shareholder interests.

On behalf of shareholders, I sincerely thank the Board members who stepped down during the year: J. Brian Aune, André Bureau, J.V. Raymond Cyr, George A. Fierheller, Pierre MacDonald, Peter G. White and Lynton R. Wilson. All have contributed to the Corporation's remarkable progress through their counsel and enlightened decisions.

Our Advisory Board, comprised of a select group of individuals who have earned distinction in their fields, met twice in 1998. Their role – essential in an environment of rapid change – is to provide management with an external perspective on developments in the global economy and on Teleglobe's strategies.

Promising days ahead

These are extraordinary times in our industry as the world evolves towards a global telecommunications market. The possibilities for creating value are immense, and the only limit is that of our collective imagination.

Teleglobe entered 1999 with significantly greater resources and skills to seize opportunities in existing and new niches. Our success will be determined by the degree to which we share know-how, accept new ideas and exercise mutual respect within our organization, and by our commitment and dedication to serving our customers.

I thank all of our employees around the world for their valuable contributions in 1998. We have a dedicated and motivated team of 4,800 employees whose efforts are united with those of Excel's network of IRs across the United States and more recently in Canada.

I am confident that Teleglobe's future has never been as promising.

Charles Sirois
Chairman of the Board and Chief Executive Officer

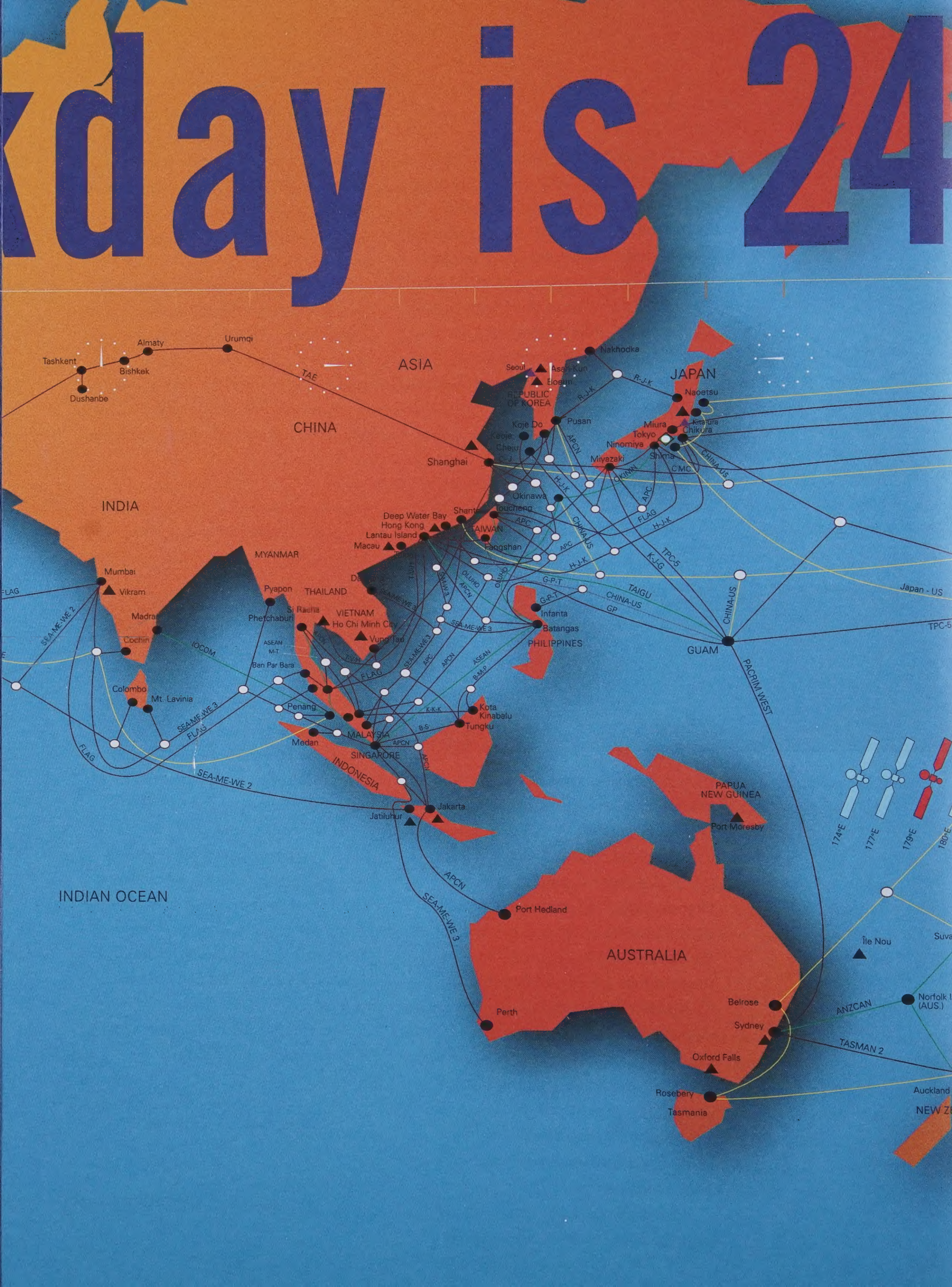
Our workday is 24

Global reach

Teleglobe owns and operates one of the most extensive intercontinental telecommunications networks on the planet and one of the world's largest global Internet backbones.

Fiber-optic undersea cables linking continents. Satellite systems covering the globe. International gateway switches in London, Montreal, New York City, Toronto and Vancouver. Terrestrial fiber-optic links. Local access points in major European centers. Internet gateways. A North American fiber-optic backbone.

All state-of-the-art. Configured for high performance.



Des Laurentides
Earth Station
Complex

International
Network
Management
Center

hours

24 little

fast and reliable

EVERY SECOND OF EVERY DAY, TELEGLOBE CONNECTS THE WORLD THROUGH VOICE AND DATA SERVICES. WITH THE HIGHEST STANDARDS OF RELIABILITY, SECURITY AND QUALITY.

FAST CONNECTIVITY OVER THE LEAST-COST ROUTES, VIRTUALLY ANYWHERE. THAT'S OUR COMPETITIVE ADVANTAGE. THROUGH STATE-OF-THE-ART INFRASTRUCTURE, ADVANCED SOFTWARE AND POWERFUL INFORMATION SYSTEMS IN OUR INTERNATIONAL NETWORK MANAGEMENT CENTER. TWENTY-FOUR HOURS A DAY. SEVEN DAYS A WEEK.

hours long

CANADA
NORTH AMERICA
UNITED STATES
MEXICO
SOUTH AMERICA
BRAZIL
ARGENTINA
CHILE
URUGUAY
ATLANTIC OCEAN
PACIFIC OCEAN
AFRICA
EUROPE
RUSSIA
ICELAND
IRELAND
U.K.
NORWAY
SWEDEN
FINLAND
GERMANY
POLAND
UKRAINE
FRANCE
BELGIUM
PORTUGAL
SPAIN
MOROCCO
ALGERIA
TUNISIA
LIBYA
EGYPT
TURKEY
JORDAN
SENEGAL
DJIBOUTI
SOUTH AFRICA
CUBA
JAMAICA
HAITI
DOMINICAN REPUBLIC
BAHAMAS
ANTIGUA AND BARBUDA
SAINT KITTS AND NEVIS
BARBADOS
SAINT VINCENT AND THE GRENADINES
Seward
Port Alberni
Vancouver
Lake Cowichan
Seattle
East Wanatchee
Pacific City
Bandon
Port Arena
San Francisco
Sacramento
San Jose
Salinas
San Luis Obispo
Santa Barbara
Los Angeles
St. Johns
Tucson
Phoenix
El Paso
Reno
Salt Lake City
Denver
Omaha
Minneapolis
Chicago
Kansas City
Dallas
Atlanta
Ocilla
Houston
San Antonio
Washington
New York
Cleveland
Montreal
Des Laurentides
Pennant
Miami
Fort Lauderdale
West Palm Beach
Nassau
Keawaula
Makaha
Bogota
Choconta
Buenaventura
Quito
Punta Carnero
Lurin
Arica
Georgetown
Fortaleza
Las Toninas
Cape Town
Dakar
Gandoul
Ouagadougou
Karma
Somgande
Wonkifong
Victoria Island
Zamengoe
N'koltang
Mougouni
Longonot
Mwenge
Mwembeshi
Kanjedza
Mazowe
Kgale
Pretoria
Sululta
Jeddah
Cape Verde
Canary Islands
Grand Canary
Madeira
Ponta Delgada Azores
Faroe Islands
Lisbon
Madrid
Casablanca
Algiers
Tripoli
Alexandria
Kingisepp
Minsk
Kiev
Warsaw
Frankfurt
Vienna
Budapest
Bucharest
Odessa
Novorossiysk
Istanbul
Ankara
Tehran
Baku
Tbilisi
Kuwait
Manama
Doha
Abu Dhabi
TPC-4
TPC-5
HAW-4
HAW-5
CHINA-US
SOUTHERN CROSS
Japan - US
PAN AM
TAT-12
TAT-13
TAT-14
ATLANTIC CROSSING (AC-1)
COLUMBUS 2
COLUMBUS 3
AMERICAS-1
AMERICAS-2
SAT-2
SAT-3/WASC
Atlantis 2
FLAG
SAFE
304°E
305°E
307°E
315°E
317°E
322.5°E
328.5°E
335.5°E
338.5°E
342°E
344.5°E
346°E
359°E
60°E
64.5°E
KEY
Cable station
Internet gateway
Int'l center/ internet gateway
POP/access location, Excel
POP/access location, TCC
Earth station complex
INTELSAT partner's earth station
ORBCOMM earth station
Domestic link
Submarine Cables
Coaxial cable
Fiber-optic cable
Planned or under construction
Branching unit
Satellites
Inmarsat
Intelsat V
Intelsat VI
Intelsat VII
Intelsat VIII
Intersputnik Express
PanAmSat I
PanAmSat III
Orion I

24 little

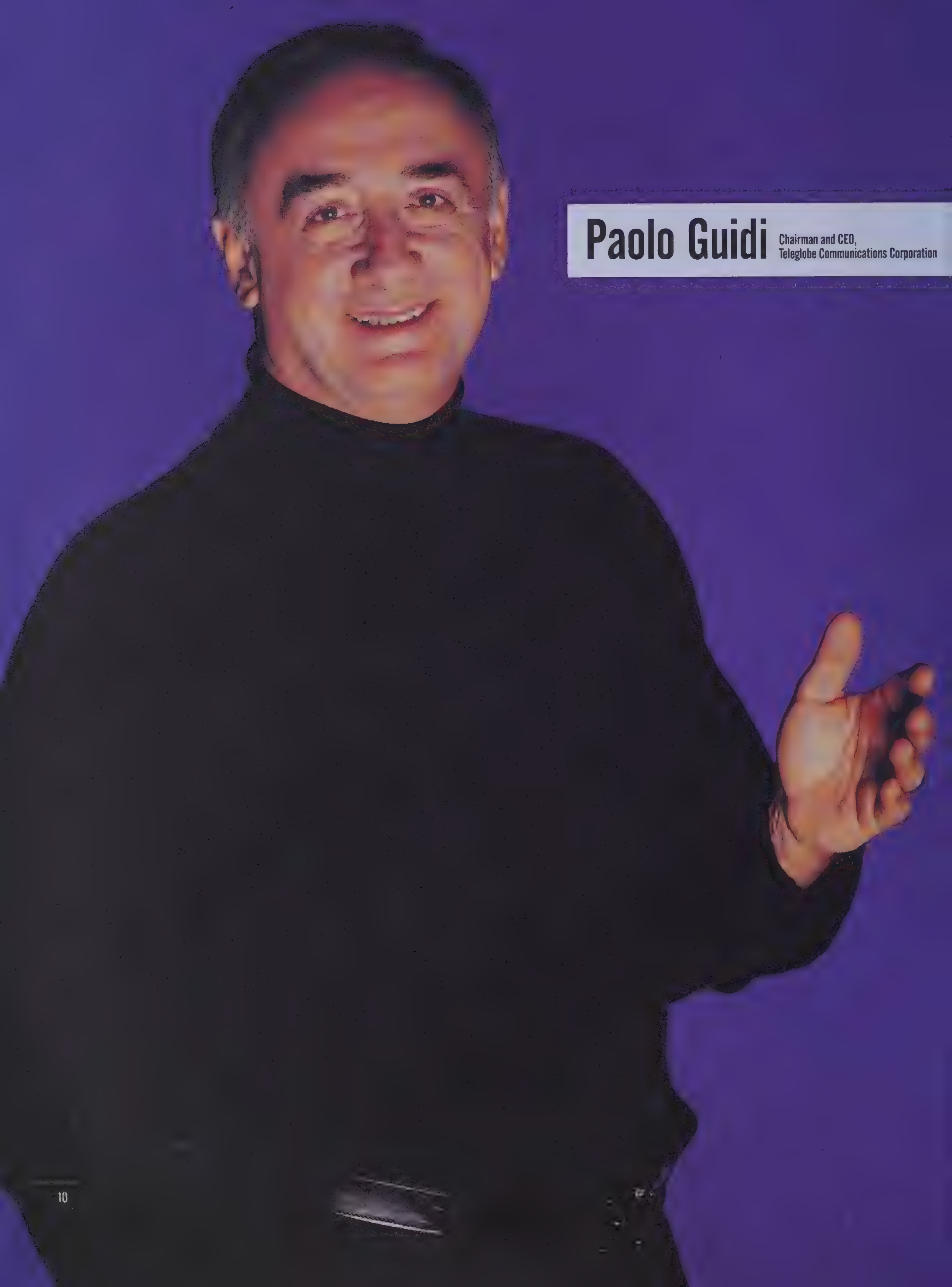
EVERY SECOND OF EVERY DAY, TELEGLOBE CONNECTS THE WORLD THROUGH VOICE AND DATA SERVICES. WITH THE HIGHEST STANDARDS OF RELIABILITY, SECURITY AND QUALITY.

FAST CONNECTIVITY OVER THE LEAST-COST ROUTES, VIRTUALLY ANYWHERE. THAT'S OUR COMPETITIVE ADVANTAGE. THROUGH STATE-OF-THE-ART INFRASTRUCTURE, ADVANCED SOFTWARE AND POWERFUL INFORMATION SYSTEMS IN OUR INTERNATIONAL NETWORK MANAGEMENT CENTER. TWENTY-FOUR HOURS A DAY. SEVEN DAYS A WEEK.

Des Laurentides
Earth Station
Complex

[illegible]

hours



Paolo Guidi Chairman and CEO, Teleglobe Communications Corporation

Growing at the speed of unprecedented opportunities

By balancing geographic market organization, network growth and product management, Teleglobe Communications Corporation (TCC) is building a sustainable competitive advantage to capture unprecedented opportunities in the rapidly evolving global telecommunications market.

TCC is a leader in global connectivity, reaching 240 countries and territories through the world's third-largest intercontinental telecommunications network. Market penetration is managed by a regional organization of 40 sales offices in 31 countries, with headquarters in the Washington, D.C. area.

TCC has demonstrated a keen ability to anticipate change and seize opportunities on a global scale by executing significant market moves in record time. Since obtaining its first U.S. operating authority from the FCC in 1996, the Corporation has more than tripled its global traffic profitably despite increasing competition.

In step with worldwide liberalization, TCC already holds licenses and other authority to own and operate facilities or resell telecommunications services in 23 countries, including the United States, Japan, Germany, the United Kingdom and France, the world's five largest telecommunications markets in order of size. We estimate that these countries alone represent an addressable market for TCC of more than $32 billion of international long distance revenues.

TCC provides services and solutions through its high-capacity, state-of-the-art infrastructure of fiber-optic undersea and terrestrial cable systems, satellite systems, switching facilities and software. Based on recognized product development know-how and operational excellence, a wide range of voice, data, Internet, video and innovative value-added services are offered competitively to an expanding international customer base.

A year of vigorous growth

Total international long distance traffic reached 3.6 billion minutes in 1998, compared to 2.8 billion minutes in the previous year. Over the past three years, TCC's total international traffic has grown at a compound annual rate of 34%.

The highest growth was recorded in the United States where minutes of traffic rose 151% and accounted for 19% of TCC's international traffic mix in 1998, compared to 10% in 1997.

Leveraging the significant liberalization in telecommunications markets in the European Union that took effect in 1998, TCC increased its European traffic by 43%. The European share of TCC's international traffic rose to 22% compared to 20% in 1997.

Transmission and data services – including Internet, international private lines and broadcast services – experienced explosive growth. Revenues from these services, which are not measured in minutes, reached $200 million, an increase of 59% compared to the $126 million recorded the previous year.

Expanding globally

The pace of liberalization in the global telecommunications industry gained additional momentum in 1998. Many countries took steps to liberalize their domestic markets and facilitate entry by foreign operators, in accordance with their commitments in the World Trade Organization agreement on telecommunications services. TCC channeled great energy into capitalizing on these new and timely opportunities.

Teleglobe captured increasing benefits from its prior strategic positioning by adding 175 new carriers to its customer base in 1998, bringing the number to 450 in more than 150 countries. U.S. carrier customers increased to over 100 and, a year after market liberalization occurred in most European Union countries, over 80 European carriers were Teleglobe customers.

Licenses. TCC has successfully pursued new operating licenses throughout the world. In the European Union, TCC reinforced its market position with the addition of new licenses for the ownership and operation of facilities and the provision of voice and data services in newly opened markets in France, Ireland, Italy and Spain. This augments Teleglobe's existing European operating authority in Denmark, Finland, Germany, Iceland, the Netherlands, Norway, Sweden and the United Kingdom.

In the Asia-Pacific region, TCC was awarded licenses in Hong Kong and Japan to provide international voice and data services using direct links interconnected with its North American network. In the Americas, TCC received authorizations to provide data, Internet and corporate voice services in Argentina, Colombia, Mexico and Panama. TCC anticipates continued aggressive acquisition of operating licenses in 1999.

The additional licenses will allow TCC to offer services from an in-country point of interconnection more convenient to our existing and prospective customers. Additionally, the licenses enable the Corporation to reduce its operating costs by facilitating selective termination of inbound traffic directly into local networks, rather than through higher cost international gateways.

Sales offices. In key markets, TCC maintains a local presence through sales offices. Organized regionally, they enable TCC to service customers in real time, delivering on-site response. This regional market organization also allows rapid evolution from sales office to network deployment once a license has been obtained. TCC builds demand before installing network infrastructure, resulting in a quicker payback on investment and reduced costs.

In 1998, sales offices were added in Brazil, Mexico and Panama in Latin America; Indonesia, Malaysia and Taiwan in the Asia-Pacific region; and in the Czech Republic.

U.S. sales offices were opened in Chicago, Miami and San Francisco, mainly to market services to Fortune 1000 companies with extensive U.S. and international communications needs. This increased the number of U.S. sales offices to six, exclusive of the 31 Excel offices.

Global products and customers

The ability to understand the current and future needs of customers and respond with innovative products and services is a fundamental strength of TCC. Combined with leadership in international connectivity,

innovation is a powerful source of competitive advantage in a rapidly changing market and technological environment. For example, our first-to-market simplex (one way) INTELSAT-based Internet access service resulted in Teleglobe becoming the world's largest provider of such a service via the INTELSAT system.

Carriers. A broad range of services are offered to wireline and wireless carrier customers, including international routing and delivery of voice traffic, and carrier lease services. Value-added services such as calling cards, collect calling, operator services and international toll-free services are also making an increasing contribution to traffic growth. Designed for the residential and commercial markets, these products can be branded by carriers and resellers around the world with their own name and offered at competitive prices.

Corporations. For large corporations, TCC offers international private lines, switched voice services, Internet access, toll-free services, corporate calling cards and asynchronous transfer mode (ATM) services. TCC is actively marketing to corporations in the United States, with increasing success. With further deregulation in Canada in 1998, an aggressive marketing effort was launched, attracting nearly 100 large customers from diverse sectors such as high tech, manufacturing, financial services and import/export.

Product innovation is leveraged through Teleglobe's leadership in global connectivity. TCC's network routes traffic through 180 direct interconnections with 145 countries.

GSM operators. TCC also strengthened its leadership as a provider of international signaling capabilities for wireless carriers. This service, which features home country billing for roaming services at reasonable rates, attracted new GSM (Global Standard for Mobile) operators from around the world in 1998, bringing the number of wireless operator customers to over 100.

Broadcasters. Several major television networks, including ABC, CBS and CNN, signed contracts in 1998 for broadcast services for news, special events and occasional use. In early 1999, the Canadian Broadcasting Corporation (CBC) chose TCC to support its broadcast voice and data transmission needs for the Sydney 2000 Olympic Games.

Teleglobe has been a leader in broadcast services for over twenty years, and now serves more than 100 of the industry's major broadcasters. Through the Millennium℠ service, TCC provides a cost-effective video transmission solution featuring enhanced picture quality, signal security and almost unlimited bandwidth. Millennium is the world's first broadcast quality video link using the latest in digital compression technology and the ATM high-speed protocol.

Teleglobe added 175 new carriers to its customer base in 1998, bringing the number to 450 in more than 150 countries.

is equipped with leading-edge software for traffic processing, least-cost routing to hundreds of destinations and the highest degree of network optimization. These capabilities strengthen TCC's commitment to customer service and support profitable growth in a competitive environment.

An evolving network

Major investments were made in 1998 in cable systems, gateways and local access points, in line with geographic market opportunities, the need for capacity additions due to business growth and the bandwidth requirements of rapidly expanding Internet and data traffic.

Points of presence (POPs) for local access were deployed in Madrid and Tokyo, providing direct interconnection to the network after TCC obtained operating licenses in Spain and Japan, respectively. A major capacity swap was negotiated with Esprit Telecom to provide a fiber link between TCC's London gateway and its Paris POP, continuing the extension of TCC's facilities-based network across Western Europe.

Investments in fiber-optic undersea cables in 1998 included the Americas-II, Atlantic Crossing (AC-1), Columbus-III, Japan-US and Southern Cross systems, reinforcing Teleglobe's global reach and adding capacity in key and liberalizing telecommunications markets. TCC is also a founding investor in the China-US Cable Network, which will begin operation in late 1999, providing a substantial increase in capacity to service China, Japan and other Asian markets.

As important as its global reach and flexibility, are the network's advanced technology features. The state-of-the-art International Network Management Center

Outlook

Market liberalization and fragmentation, spectacular growth in Internet and data traffic, and technological advances, are just some of the factors contributing to the immense opportunities in the telecommunications industry. The significant expansion of Teleglobe's customer base in 1998 demonstrated the effectiveness of its positioning as markets open to competition.

The Corporation's objective is to gain global market share. In addition to its full range of services, TCC has unique capabilities in two large and expanding market segments: global connectivity for incumbent and emerging carriers, and access to North American Web sites, businesses and users for Internet Service Providers from around the world.

Combined with the benefits of facilities-based licenses in key markets, TCC is on track for significant revenue growth and diversification.

At the forefront of global Internet connectivity

Building on existing transmission infrastructure and facilities-based licenses in key geographic markets, Teleglobe Communications Corporation (TCC) has developed one of the world's most extensive high-capacity Internet backbones. In record time, Internet connectivity has become a significant business for TCC, with a diversified and growing customer base of carriers, national and regional Internet Service Providers (ISPs), large corporate users and academic networks around the world.

Globeinternet™ service achieved rapid commercial success by leveraging Teleglobe's unique position as a bridge to North America, home to the vast majority of World Wide Web sites and Internet content development. By providing cost-effective, direct access to the U.S. Internet for non-U.S. ISPs, Teleglobe has attracted hundreds of customers in over 90 countries over the last two years, representing nearly 15% of all the Internet "routes" to the users and content providers on the Internet. For several of these countries, TCC's connection to North America is provided by integrated cable and satellite links, an innovative solution which delivers faster downloads of Web content than two-way satellite, while being more cost-efficient than a two-way cable link.

Demand for Internet connectivity is growing rapidly, fueled by the popularity of the Web and the surge in electronic commerce. TCC is adding capacity and bandwidth aggressively to satisfy the growing needs of ISPs and large corporate intranets and extranets. A major objective in 1999 is to gain market share in the multi-billion-dollar market for Internet connectivity in the United States, Canada and Europe by selling directly to ISPs, businesses and Web content providers, especially those which have international requirements.

Robust, global backbone

Teleglobe's Internet backbone has the world's largest geographic reach, with over 90 countries served. It is one of the most robust in North America and extends to Teleglobe's points of presence (POPs) in Frankfurt, London and Paris. It combines with TCC's satellite and cable systems to provide global connectivity and high capacity.

Globeinternet has established connections to the major Network Access Points in the United States and to European Internet Exchanges, and obtained direct connectivity to other key U.S. backbone ISPs. TCC also uses its international carrier relationships to provide both direct and transit routes to Internet networks in every region of the world. Leading-edge Internet Protocol routing services, as well as optimized content and bandwidth management capabilities, will further reinforce the core network advantage.

In 1999, POPs will be deployed in key cities in North America and around the world where Teleglobe is authorized to provide Internet services. Twelve additional POPs are planned by year-end, consolidating Teleglobe's leadership in global Internet connectivity.

NORDUnet

"Teleglobe's responsiveness and the reliability of the services allow us to participate in American Internet research activities and to deliver first class Internet services to research and education institutions in the Nordic area," says Peter Villemoes at NORDUnet.

Kenny A. Troutt

Vice Chairman, President and COO, Teleglobe Inc.
CEO and Founder, Excel Communications, Inc.

Powerful distribution for rapid market penetration

While building on a Teleglobe family look, Excel's new visual identity truly conveys our newly established presence in the international marketplace as we leverage the success of our marketing expertise.

EXCEL

From its solid base as the fourth-largest long distance company by revenue in the United States, Excel Communications is preparing to take on the world.

While continuing to focus on the U.S. market, Excel is joining forces with Teleglobe to launch retail services in Canada in early 1999. Penetration of the other G7 countries – France, Germany, Italy, Japan and the United Kingdom – is next in line.

Excel stands out for its vision of building a huge business in record time by adapting the well-known concept of network marketing to telecommunications services. Through a network of independent sales representatives (IRs), the company achieves rapid market penetration at a competitive cost. Perfected over a decade in the United States, this proven distribution method will be Excel's predominant sales channel for marketing residential long distance and other services in G7 markets.

In the United States, Excel entered 1999 as a facilities-based provider, with greater flexibility for the development of competitive, branded products and improved customer service. By leveraging Teleglobe's recognized know-how in product innovation, Excel will stimulate sales to its established base of several million residential and commercial customers.

A transition towards renewed U.S. growth

Minutes of long distance usage rose to 11.8 billion in 1998 compared to 11.1 billion minutes pro forma in the previous year. Commercial services contributed most of this growth, becoming the company's fastest-growing segment.

Approximately 80% of Excel's long distance traffic was migrated from third-party networks to Excel's facilities by year's end. International long distance traffic will be moved to Teleglobe's intercontinental telecommunications network in 1999. These migrations will lower operating costs and increase Excel's flexibility for pricing and product branding.

Excel's Simply 7sm, the lowest-priced residential calling plan ever offered by Excel, was launched in the fourth quarter, featuring a flat rate of seven cents per minute for all interstate long distance calls, 24 hours a day, and a low monthly fee. Excel Onlinesm, a dial-up Internet service for retail customers, was pre-launched to IRs late in the year. Commercial sales began in early 1999.

Steeped in success

Founded in 1989 as a switchless reseller of residential long distance services, Excel quickly gained market share through network marketing. By 1996, revenues soared to nearly $1.4 billion.

Having built demand and a loyal customer base, the company acquired a sizeable fiber-optic network in late 1997 with the purchase of Telco Communications Group, becoming a facilities-based telecommunications provider. This transaction also added a new strategic asset – a professional sales force for commercial services.

The merger with Teleglobe in 1998 crowned a sensational decade of value creation.

The power of network marketing

Excel emerged rapidly as a major force in the U.S. long distance market by adapting network marketing – a proven distribution method in many industries – to the sale of telecommunications services. Today, its vigorous network counts several hundred thousand IRs.

Marketing through relationship selling is based on the premise that a prospective customer is more likely to accept a direct proposal from an individual – a relative, friend, neighbor, colleague or other acquaintance. Experience shows that this approach produces a higher close rate on sales, increases customer loyalty and provides an audience for the introduction of new products and services. Marketing costs are also lower than for other distribution methods, with an estimated payback within six months for each new customer.

The efficiency of this proven method is greatest when three conditions are met: a motivated sales force, simple and competitive products and efficient customer service. Excel has developed network marketing into a science.

IRs are highly motivated entrepreneurs, working to generate commission-driven sales. They build one-on-one relationships with customers, acting as personal telecommunications advisors.

New and enhanced products are regularly introduced into the IR network. They are simple to explain and simple to use. More important still, customers perceive them as providing better value than competing services.

Excel supports IRs through effective training, motivational and informational television programs, regular communications and sales materials. IRs will also benefit from heightened marketing and training support through the Web under a new initiative by up2 technologies, a Teleglobe subsidiary.

Network marketing is used effectively in many industries and countries around the world. Relative to population, sales through this distribution method are highest in Japan. The United States ranks second, followed closely by Canada and Germany, but well below Japan, among G7 countries.

New growth opportunities

With a lower cost structure as a facilities-based provider, Excel has the flexibility to offer more competitive calling plans and new services, including value-added Teleglobe products, to its established U.S. residential and commercial customer base. International long distance, a large market segment, is just one example. With its network of IRs, new products and the migration of international long distance traffic to Teleglobe's global network, Excel entered 1999 with a competitive offering in this product segment.

Excel will enter new geographic markets by adapting network marketing to the other G7 countries. Annual telecommunications service revenues in these markets total nearly $240 billion. With a targeted 3-5% penetration of selected market segments in each country, the potential for growth is outstanding.

Penetration of these markets will begin in Canada, familiar ground for Teleglobe. In addition to regional long distance and international long distance, new niche products are being jointly developed with Teleglobe Communications Corporation (TCC) to give IRs a strong portfolio. Services will be launched in Canada in early 1999, with progressive deployment into other countries in the coming years.

Diversification into commercial services

Commercial services represent a new market for Excel. The commercial sales force in this segment, which targets medium-size and large enterprises with business long distance plans, grew to more than 300 employees at year-end. IRs also sell into this market, with products specifically designed for them such as Excel's Prime Business Select℠, launched in 1998. IRs target small- and medium-size business accounts.

Commercial customers do most of their calling in the daytime when network use is lowest since Excel's residential customers call mainly in the evening. The incremental commercial minutes generate substantial additional revenue, increasing network efficiency and Excel's performance. New product launches are planned for the professional sales force in 1999, including international long distance and dedicated Internet access for commercial customers.

Outlook

The combination of Excel and Teleglobe, as well as the migration of traffic to Excel's own network, results in a stronger U.S. position in both the residential and commercial retail markets. A stream of competitive new products and enhancements during 1999 will stimulate business for IRs, leading to increased revenues and commissions.

Outside the United States, Excel and TCC are finalizing business plans for penetrating huge retail markets with niche products and services, a strategic move powered by network marketing. By sharing know-how and expertise, the two companies will be a formidable force in every market they enter.

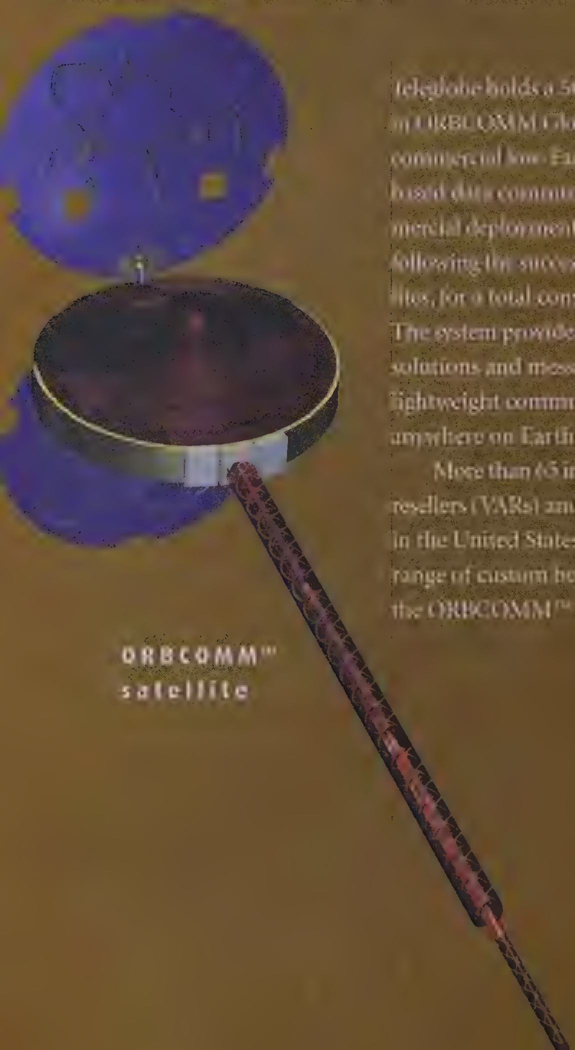
up2technologies inc.

Introducing IRs to e-commerce

Strong support to IRs is one of the keys to Excel's success. Among major initiatives in 1998 was the launch of a new portal site on the World Wide Web – http://www.up2me.com – the first step in developing a comprehensive, easy-to-use electronic commerce platform.

In 1999, IRs will be able to set up their own home page on the Internet for making contacts, communicating with potential customers, selling telecommunications services or recruiting and training new IRs. Called up2market, this personalized home page feature includes access to e-mail, unified messaging, a secure e-commerce platform and a virtual office on the Web. Profiling features will be incorporated into the portal to help Excel and its IRs better understand customer needs.

Global data and mess



ORBCOMM™ satellite

Teleglobe holds a 50% ownership interest in ORBCOMM Global, L.P., the world's first commercial low Earth orbit (LEO) satellite-based data communications system. Commercial deployment is ramping up in 1999 following the successful launch of 18 satellites, for a total constellation of 28 LEOs. The system provides reliable, two-way data solutions and messaging through small, lightweight communications terminals anywhere on Earth.

More than 65 independent value-added resellers (VARs) and application developers in the United States are designing a wide range of custom business solutions using the ORBCOMM™ system's capabilities.

In the rest of the world, service agreements are in place with 12 international licensees responsible for marketing and distribution in over 75 countries. Four manufacturers, including Kyushu Matsushita Electric Company, Ltd. (Panasonic), Scientific-Atlanta, Inc. and Magellan Corporation, are producing various types of subscriber units.

ORBCOMM's solutions address a potential worldwide market estimated at more than 160 million subscriber terminals for uses such as fixed asset monitoring, mobile asset tracking and commercial and personal messaging. These and other applications are part of the growing demand for global data and messaging without the geographic or technical limitations of traditional networks.

The ORBCOMM system, based on satellites weighing just 45 kg each, was implemented and deployed at a relatively low cost. Services are competitive with other data transmission solutions as a result of the system's cost base and global footprint.

ging solutions

Proven applications

The largest single use for ORBCOMM's services – estimated at 35% of the total addressable market – is fixed asset monitoring. This includes automatic meter reading systems for commercial and residential utility customers. Applications have been developed to monitor oil and gas storage tanks, wells and pipelines, as well as environmental projects located in remote areas where wireline communications are rudimentary or non-existent.

Another major market is mobile asset tracking, estimated at 10% of the total addressable market. Applications have been developed for tracking commercial vehicles, trailers, rail cars, heavy equipment, fishing vessels, barges and government assets.

In both monitoring and tracking applications, small terminals are mounted on the assets – from pipelines to refrigerated trucks. Integrated software ensures that the desired data is transmitted to the customer's management information systems via the ORBCOMM system.

Commercial and personal messaging services are estimated to represent 25% of the addressable market. Applications include short, digital two-way paging-like communications from almost anywhere on Earth.

The remaining 30% of the addressable market includes a wide variety of applications.

Value-added resellers play key role

VARs play a critical role in the marketing and distribution of ORBCOMM services, since the integrated solutions currently being developed often require a change in a customer's business processes. The VARs must effectively demonstrate the benefits of using the ORBCOMM system and provide vital support and assistance in the initial implementation of business solutions.

ORBCOMM has established two VARs as separate operating divisions focused on different markets. One is developing applications to track assets in the transportation industry. The second is dedicated to fixed asset monitoring, and has already developed a commercial product capable of monitoring oil and gas storage tanks and wells.

ORBCOMM's first full year of commercial operation will be in 1999. Orbital Sciences Corporation holds the remaining 50% interest in ORBCOMM.

ORBCOMM
GLOBAL DATA & MESSAGING

The business combination (the "Teleglobe-EXCEL merger") of Teleglobe Inc. ("Teleglobe" or the "Corporation") and Excel Communications, Inc. ("EXCEL"), completed in November 1998, marks an important change for Teleglobe. This transaction significantly expands the Corporation's presence in the United States ("U.S.") and adds retail distribution capability and customer service know-how that can be leveraged jointly with Teleglobe Communications Corporation ("TCC") in other geographic markets.

The Teleglobe-EXCEL merger has been accounted for as a pooling of interests. Accordingly, the prior period consolidated financial statements presented in this annual report have been restated to include the consolidated results of operations, financial position and cash flows of EXCEL as though it had always been a part of Teleglobe. In addition, on October 14, 1997, EXCEL merged with Telco Communications Group, Inc. ("Telco"), a facilities-based long distance company providing commercial, wholesale and dial-around services to customers across the U.S. This merger was accounted for using the purchase method of accounting and 1998 was the first year in which a full-year contribution from Telco was recorded. Less than three months of Telco's 1997 results are included in that year's financial statements.

As a result of the increased scope of its U.S. operations denominated in U.S. dollars, the Corporation has adopted the U.S. dollar for reporting purposes. The following financial information is expressed in U.S. dollars and has been prepared in accordance with generally accepted accounting principles in the U.S.

Consolidated Results

The Corporation reported a net income of $14.9 million in 1998, or diluted earnings per share of $0.04, compared to $111.3 million in 1997, or $0.46 per share on a diluted basis. Net income in 1996 was $211.0 million, or $0.91 per share on a diluted basis.

Reported net income was affected by non-recurring items, particularly in 1998 and 1997. Such items reduced net income by $221.9 million net of taxes, or $0.88 per share on a diluted basis, in 1998, and by $96.6 million net of taxes, or $0.41 per share on a diluted basis, in 1997. In 1996, net income decreased by $18.5 million net of taxes, or $0.08 per share on a diluted basis, mainly as a result of an extraordinary item.

Reported results

(in millions of dollars, except per share amounts)

Years ended December 31,	**1998**	1997	1996
Operating income before depreciation and amortization	**$ 221.5**	$344.6	$450.7
Operating income	**89.1**	242.3	338.1
Net income	**14.9**	111.3	211.0
Diluted earnings per share (EPS)	**0.04**	0.46	0.91
Impact of non-recurring items, after income taxes	**(221.9)**	(96.6)	(18.5)
Diluted EPS impact of non-recurring items	**$ (0.88)**	$(0.41)	$(0.08)

Non-recurring items

The Corporation recorded various non-recurring items, particularly in 1998 and 1997. These items totaled $221.9 million in 1998 and $96.6 million in 1997. These items are reflected in the consolidated statements of operations in "Other operating items" and, to a lesser degree, in "Selling, general and administrative" and "Telecommunication and network expenses".

Non-recurring items (in millions of dollars)

Years ended December 31,	1998	1997	1996
Pre-tax non-recurring items			
Expenses			
Asset Impairment and Write-Down of Investments	$(283.7)	$ (73.7)	$ –
EXCEL Non-Recurring Expenses	(110.7)	–	–
Teleglobe-EXCEL Merger-Related Costs	(21.3)	–	–
EXCEL-Telco Restructuring Expense	–	(64.6)	–
Gains			
Sale of CGI Group Inc. Shares	32.5	–	–
Sale of Interests in INMARSAT and Stratos Wireless Inc.	15.4	–	–
Total	(367.8)	(138.3)	–
Tax benefit	145.9	47.1	–
After-tax non-recurring items			
Cumulative effect of change in accounting principle	–	(65.2)	–
Gain on disposal of discontinued operations	–	65.2	–
Income (loss) from discontinued operations	–	(5.4)	3.6
Extraordinary item	–	–	(22.1)
Total non-recurring items, after income taxes	$(221.9)	$ (96.6)	$ (18.5)

Asset Impairment. In 1998, the Corporation recorded a non-cash charge to operations of $283.7 million, mainly related to the write-down in the carrying value of certain equipment, cable systems and goodwill. This write-down was made in conjunction with the end of its exclusive mandate as the sole authorized provider of facilities-based overseas telecommunication services in Canada, reflecting the expectation of increased competition, especially for outbound Canadian traffic, as well as accelerated asset replacement due to continued technological innovation. This amount also includes $28.1 million for the write-down of some computer systems which have been replaced by EXCEL. In 1997, the Corporation recorded non-cash write-downs of $73.7 million related to the inventory capacity it held for resale in the Globesystem Atlantic™ cable system ($57.8 million) and to its net investment in Optel Communications Inc. ($15.9 million).

EXCEL Non-Recurring Expenses. In 1998, EXCEL recorded non-recurring expenses of $110.7 million for the integration of its Telco network and administrative functions as well as additional bad debt expenses. These resulted primarily from billing delays and other bill processing problems related to the implementation of a new customer care system.

Teleglobe-EXCEL Merger-Related Costs. This amount consists of expenses associated with the completion of the Teleglobe-EXCEL merger such as professional and regulatory fees, also charged to operations.

Other EXCEL items. In January 1997, EXCEL changed its accounting principle to fully expense subscriber acquisition costs in the period incurred, resulting in a non-cash charge of $65.2 million, net of income taxes of $39.6 million. In addition, EXCEL recorded restructuring expenses and other non-recurring expenses of $64.6 million, related principally to the acquisition of Telco.

Gains. The Corporation recorded a gain of $32.5 million in 1998 following the sale of shares in CGI Group Inc., acquired on the disposal of its Insurance Systems operations. An additional gain of $15.4 million was recorded on the disposal of its interests in the International Maritime Satellite Organization ("INMARSAT") and Stratos Wireless Inc., completing transactions initiated in 1996.

Discontinued operations. In 1997, the Corporation sold its Insurance Systems operations and recorded a gain of $65.2 million, net of income taxes of $10.1 million. The income (loss) from discontinued operations, net of income taxes, was $(5.4 million) and $3.6 million in 1997 and 1996, respectively.

Extraordinary item. In 1996, Teleglobe recorded an extraordinary item of $22.1 million following a change in regulatory practices in Canada, from rate-base/rate-of-return methodology to a price-cap regime.

Results of operations

Consolidated revenues (in millions of dollars)

Years ended December 31,	1998	1997	1996
Telecommunication	**$2,969.4**	$2,391.0	$1,795.9
Telecommunication revenues from related parties	**348.6**	401.9	413.0
Marketing services	**70.9**	121.3	260.7
Total consolidated revenues	**$3,388.9**	$2,914.2	$2,469.6

Telecommunication revenues increased 24.2% in 1998 compared to 1997, mainly due to the inclusion of 12 months of Telco sales. Less than three months of such sales were included in 1997. On a pro forma basis with Telco, these revenues rose less than 1.0%. The strong growth in TCC global switched services as well as transmission and data revenues more than offset the decline in Canadian outbound and inbound revenues and the lower revenues from the casual calling services of EXCEL. The 33.1% increase in telecommunication revenues (excluding revenues from related parties) from 1996 to 1997 is attributable mainly to TCC, which contributed $353.8 million of the higher revenues, due to strong growth in global traffic minutes, as well as transmission and data revenues. EXCEL's telecommunication revenues increased $242.4 million over these two years, primarily as a result of higher long distance traffic from presubscribed customers and, to a lesser extent, from the addition of Telco revenues following its acquisition in October 1997.

Telecommunication revenues from related parties are from members of the Stentor alliance of Canadian telephone companies of which subsidiaries and affiliates of BCE Inc., a major shareholder of the Corporation, are members. These revenues decreased 13.3% in 1998 as a result of declining prices attributable to higher competition. Such revenues are expected to be lower in 1999 for the same reason.

Marketing service revenues declined in 1998 and 1997 as a result of fewer applications from new EXCEL Independent Representatives (IRs). This item includes revenues for training, business forms, promotional and presentation materials, ongoing technical and administrative support services, and monthly reports. The Corporation expects marketing revenues to stabilize and increase gradually in future years as new IRs are recruited in the United States and other G7 countries, starting in Canada in the first quarter of 1999.

Operating expenses

Operating expenses (in millions of dollars)

Years ended December 31,	1998	1997	1996
Telecommunication and network	**$2,017.8**	$1,745.1	$1,362.9
Selling, general and administrative	**892.5**	686.2	656.0
Depreciation and amortization	**132.4**	102.3	112.6
Other operating items	**257.1**	138.3	–
Total operating expenses	**$3,299.8**	$2,671.9	$2,131.5

Telecommunication and network expenses were 15.6% higher in 1998 compared to 1997, due mainly to the inclusion of a full year of Telco expenses. However, for both entities, telecommunication expenses decreased as a percentage of telecommunication revenues, representing 60.8 % in 1998 compared to 62.5 % in 1997. In 1997, telecommunication and network expenses rose $382.2 million, or 28.0%. TCC accounted for 65.5% of this increase, attributable mainly to higher terminating charges as a result of the increase in global traffic minutes. EXCEL contributed the balance of the increase, also as a result of higher traffic.

Telecommunication and network expenses are expected to increase as a result of continued growth in TCC's traffic minutes and the continued buildout and expansion of the Corporation's telecommunications network. However, as revenues grow, cost per unit of traffic is expected to decrease through greater network efficiency.

The increase in 1998 selling, general and administrative (SG&A) expenses is mainly attributable to a full year of Telco's SG&A expenses, as well as certain non-recurring expenses recorded by EXCEL, in particular Telco administrative integration costs and higher uncollectible accounts expense associated with billing delays and other customer service systems processing difficulties experienced in 1998. The balance is attributable to TCC, related to the expansion in the number of international business offices. Excluding non-recurring items, SG&A expenses as a percentage of telecommunication revenues were 24.4% in 1998 compared to 24.6% in 1997. SG&A expenses in 1996 were 29.7% of revenues.

Depreciation and amortization rose $30.1 million in 1998 from 1997, primarily due to amortization of goodwill resulting from the Telco acquisition and depreciation of the assets acquired in this transaction. Depreciation will continue to rise as the Corporation extends its telecommunications network in North America and internationally.

The increase in other operating items is explained by higher non-recurring items in 1998 compared to 1997. A full break-down of such items for both years is presented in Note 5 to the consolidated financial statements.

Income taxes

Income taxes totaled $8.6 million in 1998 compared to $116.0 million in 1997 and $116.4 million in 1996. The decrease from 1997 was due to lower income resulting from non-recurring charges.

The 1998 effective tax rate was 67.2% compared to 51.3% in 1997 and 34.0% in 1996. The increase in rate in 1998 is attributable to permanent items non-deductible for tax purposes aggregating 28.1%. These items are composed mainly of the write-down of intangibles, amortization resulting from the acquisitions as well as merger - and acquisition - related costs. The increase in the 1997 rate compared to 1996 is explained in large part by an increase in the valuation allowance and foreign rate differential and other permanent differences in the determination of taxable income.

Segmented Results

The Corporation manages its operations based on four strategic business units: TCC, EXCEL, Teleglobe World Mobility ("TWM") and Teleglobe Enterprises ("TE"). These units are segregated based on the different products and services they provide. The two primary business units are TCC and EXCEL, providing most of the Corporation's revenues. ORBCOMM Global, L.P. ("ORBCOMM") and Look Communications Inc. ("LOOK"), which are included in TWM and TE, respectively, are considered development stage enterprises and are viewed by management as non-core operations.

TCC

TCC provides international voice services, data transmission, Internet connectivity and broadcast services through one of the world's largest intercontinental telecommunications networks.

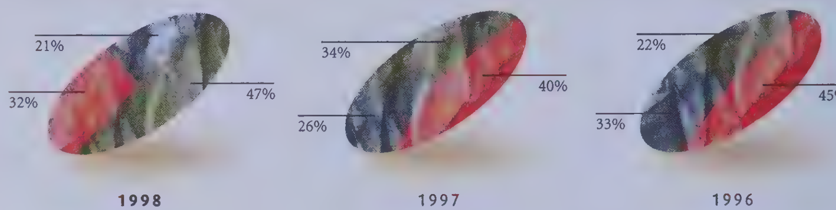
TCC revenues (in millions of dollars)

Years ended December 31,	1998	1997	1996
Telephony – Canadian outbound	$ 447.7	$ 534.3	$ 510.0
Telephony – International market			
Canadian inbound	183.6	238.4	265.1
Global	665.3	560.5	303.7
Transmission and data	200.4	126.3	38.0
Total TCC revenues	1,497.0	1,459.5	1,116.8
Segment profit (loss)	(40.9)	100.9	122.3
Impact of non-recurring items, before income taxes	(252.6)	(73.7)	–

Total revenues increased 2.6% in 1998 compared to 1997, reflecting strong growth in global switched services as well as transmission and data revenues, including Internet traffic. This more than offset the decline in revenues from Canadian outbound and inbound traffic, resulting from declining prices and the depreciation of the Canadian dollar over the two periods.

From 1996 to 1997, revenues rose 30.7%, while global revenues increased by 84.6%. Revenues from transmission and data services rose 232.4%, reflecting TCC's rapid emergence as a leading Internet connectivity provider, as well as growth in international private lines.

TCC traffic (in millions of minutes)
Years ended December 31,



	International market			
	Canadian Outbound	Canadian Inbound	Global	Total traffic
1998	**1,145**	**760**	**1,724**	**3,629**
1997	1,112	737	951	2,800
1996	915	671	447	2,033

Traffic volume carried by TCC rose 29.6% in 1998 and 37.7% in 1997. In line with the Corporation's strategy of penetrating global markets, the proportion of Canadian-related traffic continues to decrease. Canadian outbound traffic accounted for 31.6% of total 1998 traffic (28.3% in the fourth quarter of the year) compared to 39.7% in 1997. Global traffic rose 81.3% in 1998 and 112.8% in 1997.

TCC operating expenses

TCC's operating expenses, excluding other operating items, were stable in 1998 compared to 1997 despite higher traffic, as a result of a 23.9% decline in variable costs per minute. This performance reflects TCC's success in least-cost routing and improved cost control as well as the continued decline in rates for terminating traffic. SG&A expenses increased due to continuing international development activities. In 1997, operating expenses rose significantly as a result of a 37.7% increase in traffic and higher SG&A expenses related to the opening of a large number of international offices in liberalizing telecommunications markets.

Current and future trends

Prices per minute of long distance continue to fall. TCC continues to diversify its revenues on a global basis, as well as pursuing aggressive cost-cutting through the development of least-cost routing capabilities. TCC will continue to increase network efficiency and traffic volume to compensate for pricing pressures and maintain profitable margins.

As expected, the Corporation's exclusive mandate as Canada's overseas telecommunications carrier was lifted in October 1998. Teleglobe will continue to file its tariffs for approval by the Canadian Radio-television and Telecommunications Commission. Concurrently, routing restrictions on Canada/U.S. and Canada/Canada traffic, as well as other impediments to domestic competition were rescinded, allowing Teleglobe to offer more services and to do so more efficiently. In addition, the emergence of new local exchange carriers in Canada is creating a new base of potential customers for the Corporation's international connectivity services. The Teleglobe-EXCEL merger reduced the impact of the Canadian market on the Corporation's total revenues. Canadian outbound and inbound minutes represented 12.3% of Teleglobe's consolidated minutes in 1998, including EXCEL. Prior to the Teleglobe-EXCEL merger, such traffic accounted for 66.0% of total minutes in 1997 and 78.0% in 1996.

In 1998, the Corporation, Stentor Resource Centre and each of the members of the Stentor alliance of Canadian regional telephone companies reached agreement on the main terms of new arrangements for the continuing supply of services between the parties until the end of 2000. Both parties made routing commitments to each other, subject to competitive pricing conditions, covering Stentor's outbound international traffic and Teleglobe's inbound international traffic. Each Stentor company is party to these agreements.

TCC has quickly built a robust Internet and data backbone to capitalize on the explosion of data traffic, especially related to the Internet. It has successfully leveraged its international position and strong U.S. presence to become a provider of choice for connecting Internet Service Providers from around the world to North America, home to most Web sites and content development activity.

EXCEL

For EXCEL, 1998 was a year of transition to its own telecommunications network after operating as a switchless reseller since inception.

EXCEL revenues (in millions of dollars) Years ended December 31,	**1998**	1997	Pro forma 1997*
Telephony U.S. – presubscribed and casual calling	**$1,511.7**	$1,283.3	$1,603.2
Telephony U.S. – commercial	**184.3**	26.0	82.5
Telephony U.S. – wholesale	**114.2**	23.7	90.5
Marketing services	**70.9**	121.3	121.3
Total EXCEL revenues	**1,881.1**	1,454.3	1,897.5
Segment profit	**62.0**	143.6	N/A
Impact of non-recurring items, before income taxes	**(152.2)**	(64.6)	N/A

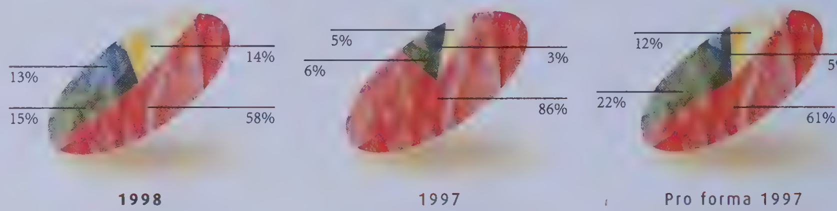
*12 months of Telco

Total revenues increased in 1998 as a result of a full-year contribution from Telco compared to less than three months in 1997.

On a pro forma basis, total revenues declined slightly in 1998, reflecting lower revenues from casual calling services as a result of intense competition. In addition, EXCEL experienced difficulties in the implementation of a new customer care system, delays in the launch of new products and increased price competition which resulted in lower revenues from presubscribed services, its largest business segment. Marketing service revenues were also lower in 1998, mainly as a result of fewer applications from new IRs, as previously explained.

Commercial revenues increased 123.4% on a pro forma basis, reflecting growth in EXCEL's professional sales force to over 300 people at the end of 1998. Wholesale revenues increased 26.2% on a pro forma basis as a result of an increase of 28.5% in traffic.

EXCEL traffic (in millions of minutes)
Years ended December 31,



	Presubscribed	Casual calling	Commercial	Wholesale	Total traffic
1998	**6,884**	**1,745**	**1,520**	**1,696**	**11,845**
1997	6,833	467	206	396	7,902
Pro forma 1997*	6,833	2,449	535	1,320	11,137

*12 months of Telco

Long distance minutes increased to 11.8 billion in 1998 compared to reported minutes of 7.9 billion in 1997. On a pro forma basis with Telco, the number of minutes rose 6.4%.

Revenue per minute of traffic decreased in 1998 compared to 1997, attributable in part to a greater proportion of commercial minutes, which typically yield lower revenue per minute than residential calling, as well as competitive pressures which required EXCEL to respond with lower prices during the year.

EXCEL operating expenses

EXCEL's operating expenses increased 35.8% in 1998 (31.0% excluding non-recurring items). Telecommunication and network costs, as well as SG&A expenses were higher, mainly as a result of the inclusion of 12 months of Telco costs. Long distance telecommunication charges as a percentage of telecommunications revenues were 54.7% in 1998 compared to 53.8% in 1997. This percentage is expected to decline in 1999 and future years with the migration of traffic from third-party networks to the Corporation's network during 1998.

Current and future trends

EXCEL has taken appropriate action to resolve difficulties experienced in its billing and in the implementation of its new customer care system experienced in 1998. As system performance improves, customer activation will accelerate and EXCEL will be positioned to reverse the decline in revenues from presubscribed and casual calling services experienced in the second half of 1998. The migration of traffic to its own network provides a lower cost base for 1999 and should allow greater flexibility for introducing new products.

A new long distance calling plan was launched in the fourth quarter of 1998 and dial-up Internet access services were introduced in early 1999. These new products are expected to stimulate EXCEL's sales force of IRs and generate additional revenues. EXCEL and TCC are planning to jointly introduce competitive international long distance services to the existing residential customer base through the IRs and new products to commercial customers.

In addition to revitalizing its U.S. sales, EXCEL will leverage the Corporation's international presence by penetrating new retail markets, starting with Canada in the first quarter of 1999. Based on the success of this initiative, EXCEL will determine the timing of market entry into other G7 countries and elsewhere in the world as domestic telecommunications markets open to foreign operators.

In order to realize internal synergies, the Corporation has integrated EXCEL's wholesale business into TCC. In addition, the casual calling business has been refocused on specific population segments, particularly those with a high propensity for international long distance calling. This move is expected to reverse the downward trend in this segment experienced during 1998.

Other operations

The Corporation holds interests in several joint ventures, including an interest in five cable ships held through Teleglobe Marine (U.S.) Inc. ("TMI"), as well as owning 30% of its Montreal head office building. It also has an ownership interest in the International Telecommunications Satellite Organization ("INTELSAT").

Teleglobe owns a 50% interest in the ORBCOMM™ digital satellite data telecommunications system. Another division, Teleglobe Media Enterprises ("TME"), is an investor in LOOK, a start-up company providing digital wireless broadcast distribution services in competition with incumbent cable television operators and Direct-to-Home satellite service providers in Ontario and Quebec, Canada. ORBCOMM and LOOK are development stage enterprises and are considered as non-core operations.

Other operations (in millions of dollars)

Years ended December 31,	1998	1997	1996
Equity in income (losses) of affiliated companies:			
TMI and other	$ 25.6	$ 24.0	$ 25.1
ORBCOMM/LOOK	(38.8)	(16.2)	(9.0)
	$(13.2)	$ 7.8	$ 16.1

The Corporation's equity in the losses of these affiliated companies increased as expected in 1998, mainly as a result of its increased participation in ORBCOMM and the ramping up of this company's commercial services in 1998. LOOK also contributed to these equity losses.

Current and future trends

Both ORBCOMM and LOOK will incur higher losses in 1999. ORBCOMM will be in its first full year of commercial operations and LOOK will be offering services in substantially all of its licensed areas. Both companies will require further funding before they achieve break-even on an operating cash flow basis and the Corporation and its partners will be required to provide such funding if other financing alternatives are unsuccessful.

Liquidity and Financial Resources

Liquidity and Financial Resources (in millions of dollars)

Years ended December 31,	1998	1997	1996
Net cash provided by (used in):			
Operating activities of continuing operations before changes in assets and liabilities	$ 321.7	$ 329.7	$ 331.6
Operating activities of continuing operations	297.9	296.6	236.1
Investing activities	(361.1)	(584.9)	(212.8)
Financing activities	90.2	137.7	122.9

Cash generated by operating activities of continuing operations in 1998 was comparable to 1997 despite higher operating income in 1997, due to large non-cash charges being recorded in 1998.

Investing activities used 38.3% less cash in 1998 than in 1997. Capital expenditures increased 170.5% to $435.5 million in 1998 from $161.0 million in 1997, reflecting higher network investments in international cable systems, additional switching capacity, new access points and the buildout of the Internet backbone. This increase was partly offset by the proceeds from disposal of investments of $215.8 million, mainly from the sale of CGI shares. Investments rose by $111.5 million in 1998, related mainly to ORBCOMM. In 1997, $475.6 million was used for the acquisition of Telco.

The Corporation expects higher capital expenditures in the coming years in order to expand its network capacity and bandwidth to seize market opportunities. It plans to invest up to $500 million in fixed assets in 1999, with two-thirds earmarked for the network and the balance for information systems and intelligent product platforms.

Total indebtedness, comprising long-term debt, short-term credit facilities available and current maturities of long-term debt, declined $26.3 million in 1998. The Corporation's ratio of total indebtedness over capitalization improved to 33.5% in 1998 compared to 35.1% in 1997.

The Corporation has various term and revolving credit facilities available, with unused portions totaling approximately $872.7 million at the end of 1998. Management considers that it has sufficient sources of funds from operating activities, unused portions of existing credit facilities and access to capital markets at competitive rates in order to meet its working capital requirements, capital investments, debt repayments and other obligations in 1999 and future years. In 1999, the Corporation will take steps to restructure its credit facilities in line with its future needs.

The Corporation's debentures are rated "A" by both Canadian Bond Rating Service and Dominion Bond Rating Service in Canada.

Financial instruments

The Corporation is exposed to market risks related to foreign currency fluctuations and interest rates as well as credit risks. Derivatives are used to hedge cash flow items recorded in foreign currencies, with a duration of less than one year. It has also concluded interest rate swaps for a portion of its debt to convert part of its fixed rate debt to floating rates. To reduce the risk of these derivative financial instruments, the Corporation diversifies its exchange contracts and interest rate swaps by dealing with financial institutions having a high credit rating.

As of January 1, 1999, the Corporation adopted the U.S. dollar as its currency of measurement. Foreign currency fluctuation risk is being assessed to determine whether this change calls for different risk management strategies.

Other factors affecting the Corporation

Integration of EXCEL. The merger of Teleglobe and EXCEL involves the integration of two entities that have previously operated independently and there is no assurance that the Corporation will not encounter significant difficulties with such integration. Potential issues include the failure to retain key employees and to realize the expected benefits of the merger. This risk is mitigated by a number of factors, including the absence of significant overlap in the respective operations of the two entities. Moreover, the main information technology systems are expected to remain separate for the foreseeable future.

Regulatory changes. The operations of the Corporation will continue to be affected by regulatory changes in the United States, Canada and the rest of the world. Ongoing events associated with the 1996 Telecommunications Act in the United States may lead to access charge reform which could change the Corporation's existing transmission costs and those of other long distance companies, as well as permit the entry by the Regional Bell Operating Companies into the long distance market resulting in increased competition, lower prices and loss of market share.

In conjunction with the opening of the local telephone market in the United States, incumbent local phone companies are not likely to provide billing services for customers presubscribed to competitive local phone companies. This would force EXCEL to either bill customers directly, enter into billing and collection agreements with new local phone companies or seek other alternatives.

Liberalization in markets outside the United States and Canada is resulting in increased competition. However, this trend is creating new opportunities for the Corporation to diversify its revenues and offer more services to more potential customers.

Competitive factors. The Corporation has observed increased competition in all of its distribution channels as well as an increase in the number of promotional and discounted calling plans available to all long distance consumers, particularly in the retail residential segment. In general, the impact has been a decline in the Corporation's revenue per minute as it has responded to competitive pressures with lower priced products.

Year 2000 Readiness Disclosure

The Year 2000 issue being addressed by the Corporation concerns the potential inability of certain information systems to process date-sensitive information with respect to the change of century. Without correction, the Corporation's telecommunications facilities, computer equipment and software devices that are time-sensitive may misinterpret a date using, for example, "00" as being the year 1900, rather than the year 2000. This misinterpretation could result in a miscalculation or a failure of the relevant information system, possibly causing a disruption of operations. Potential disruptions could include among other things, a temporary inability to provide certain telecommunications services, to perform certain business operations, such as identification of customer traffic, customer information and billing, or to use internal computer and software systems in the normal course of the Corporation's business.

EXCEL, which joined the Teleglobe group of companies following the November 10, 1998 business combination described earlier (the "Teleglobe-EXCEL merger") had developed its own Year 2000 plan before joining Teleglobe. Since the timeframe for Year 2000 compliance is short, the Corporation decided to pursue both programs separately, without a specific integration plan, except for certain monitoring and reporting functions described therein.

Accordingly, this section will discuss each of the common and, where appropriate, the distinct elements of both Teleglobe's and EXCEL's programs separately. Reference will be made to "Teleglobe" and/or "EXCEL" as appropriate. Reference to "Teleglobe" shall mean Teleglobe Inc. and/or all or any of its subsidiaries or any successor thereof prior to the Teleglobe-EXCEL merger, and reference to EXCEL shall mean EXCEL Communications, Inc. and/or all or any of its subsidiaries or any successor thereof prior to the Teleglobe-EXCEL merger.

Teleglobe has had a Year 2000 Project in place since 1996 and EXCEL since early 1998. Teleglobe's and EXCEL's Year 2000 projects are aimed at reducing the internal and external uncertainties created by the Year 2000 transition and, where possible, eliminating potential disruptions to their respective businesses caused by the input and use of dates in the Year 2000 and beyond. Teleglobe's Year 2000 program methodology has been reviewed by external consultants and internal auditors. Internally, Teleglobe's Year 2000 strategies address both its information technology and non-information technology systems and involves moving from legacy systems to a client/server environment and implementing or replacing other new systems and equipment as may be required. Teleglobe is contacting foreign and domestic telecommunications carriers with which it interconnects and material external supplier products, to (i) determine whether their services and/or products meet Year 2000 conformity requirements and (ii) evaluate their strategies and action plans for the Year 2000 transition. EXCEL's Year 2000 project is focusing on the impact of the Year 2000 date changes on EXCEL's systems and business processes, as well as external suppliers and business partners that are material to its business. In order to address possible Year 2000 issues, EXCEL has adopted a Year 2000 program methodology, and EXCEL expects this program to ensure that its core operations and essential functions will be ready for the transition to Year 2000.

Both Teleglobe and EXCEL have set up a Year 2000 project management office and a steering committee for the purpose of coordinating their efforts regarding the Year 2000 transition. Both Year 2000 offices and steering committees, which ultimately report to the Board of Directors of the Corporation, address potential Year 2000 problems and formulate guidance on Year 2000 readiness plans. In addition, each steering committee periodically provides updates to the Board of Directors of the Corporation regarding progress in its respective Year 2000 project, including a description of non-compliant systems and potential areas of exposure relating to the Year 2000.

State of Readiness

Each of Teleglobe and EXCEL's Year 2000 programs is focused on both information technology (IT) and non-IT systems, including:

1) Telecom Network: Teleglobe's international and domestic telecommunications network elements and services (voice and data); and EXCEL's telecom network elements that comprise EXCEL's switched network;
2) IT Applications: IT software applications and systems that support Teleglobe or EXCEL's telecommunications network operations and interactions with customers and other essential business and financial operations;
3) IT Infrastructure: equipment and operating systems that support Teleglobe's or EXCEL's IT infrastructure such as operational servers, PC's and LAN/WAN (local area network/wide area network) and mainframe replacement;
4) Building Facilities: physical facilities and underlying equipment and software such as facilities required in business locations to ensure operations including elevators, electricity, security and fire prevention;
5) End-Users Applications: software applications developed by users and not supported by IT systems; and
6) Third-Party Compliance: carriers, vendors and suppliers compliance assessment.

Both Teleglobe and EXCEL respective Year 2000 programs have adopted a multi-step process toward Year 2000 readiness, consisting of the following:

1) Inventory: creation of an inventory of Year 2000 affected systems to be assessed and prioritized by how critical they are to the business;
2) Impact Assessment: evaluate the impact of Year 2000 on affected systems and prioritize non-compliant items;
3) Correction: remediation of specific systems that are identified as being non-compliant through conversion, replacement or upgrade;
4) Testing: performance of tests on the date functions of the corrected systems;
5) Implementation: placement of the corrected and tested systems and technology back into their operational environments; and
6) Contingency Planning: development of contingency plans for possible system failures due to the Year 2000;

EXCEL's program differs slightly in that (i) its Testing step involves aspects of both Testing and Implementation, as defined above, and (ii) its Implementation step relates only to the development of contingency plans for possible Year 2000 system failures.

Where appropriate, Teleglobe has measured the completion of the phases of its Year 2000 program based on the following chart:

100%	85%	70%	50%	0%
completed	nearly completed	advanced	on schedule or slight delays	late

Using the chart, Teleglobe's Year 2000 program can be characterized as follows, as of January 31, 1999 (except for Third Party Compliance which is discussed herein):

1) Inventory: was completed for all systems, except for End-Users Applications which is on schedule;
2) Impact Assessment: was completed for IT Applications and IT Infrastructure and nearly completed for Telecom Network and Building Facilities;
3) Correction: was nearly completed for IT Applications and Building Facilities and advanced for Telecom Network;
4) Testing: was advanced for IT Applications and Building Facilities and on schedule for Telecom Network;
5) Implementation: was advanced for Building Facilities and on schedule for IT Applications and Telecom Network;
6) Correction, Testing and Implementation: performed simultaneously in the case of IT Infrastructure, were advanced for Operational Servers, and late for the PC Software upgrade but with substantial work in progress, for an overall expected completion by the end of the third quarter of 1999;
7) Impact Assessment, Conversion, Testing and Implementation: was late for End-Users Applications and is expected to be completed by the beginning of the third quarter of 1999.

Teleglobe's switching platforms have been upgraded and are currently Year 2000 compliant. An operational switch of Teleglobe was tested by advancing the clock to December 31, 1999. The roll-over from December 31, 1999 to January 1, 2000 was completed without noticeable problems, errors or interruptions. In addition, Teleglobe conducted interoperability tests with other Canadian telecommunications carriers, without noticeable problems, errors or interruptions.

EXCEL's implementation of its Year 2000 program has been based on the varying degrees of exposure of the different IT and non-IT systems used by EXCEL's departments and business units to the Year 2000. As a result, some components of the Year 2000 program are further along in the readiness process than others. However, based upon the evaluations of both internal and external resources involved in the Year 2000 program, EXCEL anticipates that all components of the Year 2000 Program will be completed by the third quarter of 1999.

As of January 31, 1999, the Inventory phase of EXCEL's Year 2000 program was approximately 80% complete, the Impact Assessment phase was approximately 30% complete, the Correction phase was 15% complete and the Testing phase was 5% complete. EXCEL is currently beginning implementation of its Contingency phase.

Certain critical computer equipment and software and other systems that Teleglobe and EXCEL are currently using require replacement or modification to be Year 2000 compliant. In addition, in the ordinary course of replacing computer equipment and software, Teleglobe and EXCEL seek replacement systems that are Year 2000 compliant.

The Corporation is including third party software and hardware in its assessment program, specifically testing such systems to the extent practicable, even if it has received Year 2000 readiness information from the vendor or supplier of the software or hardware.

The Corporation has mailed letters to its significant vendors and service providers and have verbally communicated with others to determine the state of readiness of such third parties for the Year 2000 and the extent to which products or services provided by such vendors may not be Year 2000 compliant. As of February 15, 1999, Teleglobe had received responses from approximately 95% of its vendors and Excel from approximately 60% of its vendors. The majority of the products for which responses have been received have provided written assurances that they expect to address all of their significant Year 2000 issues on a timely basis. A follow up mailing to such third parties who have not responded or whose responses were not satisfactory to the Corporation has been distributed, with responses to be provided to the Corporation before May 1999. The Corporation is considering the severance of relationships with any vendors who cannot demonstrate their Year 2000 readiness by that date, and replacing them with vendors who are deemed to be compliant.

Teleglobe continues to contact foreign carriers with a particular focus on those considered essential for prevention of a material disruption of Teleglobe's business operations. As of February 15, 1999, Teleglobe had received responses from approximately 62% of such essential foreign carriers, of which the majority have provided written assurances that they expect to address their significant Year 2000 issues on a timely basis. Three categories of foreign carriers have been established based on the level of revenues derived from such destinations and contingency plans will be established on the basis of the risk each of such foreign countries represents to Teleglobe's network.

In addition, Teleglobe participates in the Year 2000 Canadian Telecommunication Industry Forum (CTIF) where it is involved in developing test facilities and contingency plans for the Year 2000. In an effort to reduce the Year 2000 risks associated with interconnection to the networks of foreign carriers, Teleglobe also participates in the International Telecommunications Union's Year 2000 Task Force.

Use of Independent Verification and Validation

Teleglobe has retained the services of external consultants to review its Year 2000 Project and evaluate its state of readiness. The mandate of these external consultants is to perform a millennium assessment to objectively determine the overall preparedness and ability of Teleglobe to address the Year 2000 compliance issue in a timely manner. The project review is designed to provide management with an independent indication of the project status, risks and issues that Teleglobe is facing. The first review was conducted in June 1998, the second in October 1998 and a third is scheduled for March 1999. In addition, the internal audit department assumes a surveillance role over the project on an ongoing basis.

EXCEL has also retained external consultants to independently verify and validate the Year 2000 compliance process. EXCEL has also directed its external consultants to assist in the execution of the various phases of Excel's Year 2000 program. EXCEL will continue to set the priorities for its Year 2000 program, relying on additional assistance from its consultants to complete each phase in a timely manner. In addition, EXCEL's external consultants and internal auditors will continue to conduct periodic reviews of EXCEL's Year 2000 activities and report potential compliance issues that may not be resolved on a timely basis or any other significant findings, as applicable.

Although Teleglobe's and EXCEL's Year 2000 programs are conducted separately, as discussed above, the Corporation centralizes, whenever practicable, the reporting and monitoring functions of both programs. The internal audit groups of Teleglobe and EXCEL have been combined under one department. This department monitors the progress of management with respect to each of Teleglobe's and EXCEL's Year 2000 programs and reports directly to the Audit Committee of the Corporation, and ultimately to the Board of Directors of the Corporation.

Cost to Address Year 2000 Challenge

The Corporation's current estimated costs for its Year 2000 Program are approximately $14.4 million for Teleglobe and $25 million for EXCEL. These estimates include a capital budget of $9.5 million and an expense budget of $4.9 million for Teleglobe and $9.2 million capital and $15.8 million expense for EXCEL. Through December 31, 1998, expenditures totaled $8.2 million ($6.8 million capital and $1.4 million expense) for Teleglobe and $6.8 million ($2.8 million capital and $4.0 million expense) for EXCEL. The IT expenditures related to its Year 2000 Program constitute approximately 18% of Teleglobe's 1998 IT expenditures and 7% of EXCEL's and are projected to be approximately 10% for the 1999 IT budgets of both Teleglobe and EXCEL. These costs include labor for employees and contract personnel used in the Corporation's Year 2000 Programs, and non-labor costs for replacement hardware and software and other such costs associated with testing and remediation of non-compliant systems. The expenses with regard to the Year 2000 program are included in the operating and capital expenses, as part of normal operations. Other non-Year 2000 IT efforts have not been substantially delayed by the Corporation's Year 2000 programs.

Risks Associated with the Year 2000 and Contingency Plans

Teleglobe and EXCEL have begun to examine the risks associated with their "most reasonably likely worst case Year 2000 scenarios." Teleglobe's Year 2000 program is scheduled for substantial completion by the second quarter of 1999 and EXCEL's by the third quarter of 1999. Currently, neither Teleglobe nor EXCEL are aware of any specific function or system subject to the program that is significantly off the present processing schedule. A general project shift that would erode progress beyond January 1, 2000 is not anticipated at this time.

The costs of the Corporation's Year 2000 programs and the dates on which Teleglobe and EXCEL expect they will complete the related testing, assessment and implementation efforts are based upon management's best estimates, which were derived using numerous assumptions regarding future events, including the continued availability of certain resources, third-party remediation plans, and other factors, which assumptions Management believes to be reasonable. There can be no assurance that these estimates will prove to be accurate, and actual results could differ materially from those currently anticipated. Specific factors that could cause such material differences include, but are not limited to, the availability and cost of personnel trained in Year 2000 issues, the ability to identify, assess, remediate and test all relevant computer codes and embedded technology, and similar uncertainties. In addition, variability of definitions of "compliance with Year 2000" and the myriad of different products and services, and combinations thereof, sold by Teleglobe and EXCEL may lead to claims whose impact on the Corporation is not currently estimable. No assurance can be given that the aggregate cost of defending and resolving such claims, if any, will not materially adversely affect the Corporation's results of operations. Although some of Teleglobe's or EXCEL's agreements with manufacturers and others from whom it purchases products for resale contain provisions requiring such parties to indemnify Teleglobe or EXCEL under some circumstances, there can be no assurance that such indemnification arrangements will cover all of Teleglobe's or EXCEL's liabilities and costs related to claims by third parties related to the Year 2000 issue.

Other possible risks of the Year 2000 include the unforeseen failure of external services provided by key suppliers (specifically, suppliers of electrical power, heating, ventilation and air conditioning), local exchange carriers, inter-exchange and foreign carriers. More particularly, certain foreign carriers in less developed countries with which the Corporation is interconnected or exchanges traffic may not have the funds and/or the resources required to ensure Year 2000 compliance of their telecommunications network. These risks and the reasonability of their occurrence are currently being assessed.

In response to such risks, Teleglobe and EXCEL are evaluating different methods of addressing potential conditions or interruptions caused by the Year 2000, which may require tactical contingency planning as part of their Year 2000 Program. Teleglobe is in the process of assessing the completeness of the identified business risks in order to develop contingency plans. Because Teleglobe and EXCEL have not completed certain phases of their respective Year 2000 programs, they have not been able to forecast the total cost of contingency plans. At Teleglobe, contingency plans are being developed in conjunction with an external consulting firm and are expected to be completed by the third quarter of 1999. EXCEL has also begun a similar process and intends to finalize its contingency plans during the third quarter of 1999.

The Corporation currently believes that the Year 2000 will not create a significant interruption of its operations. However, if all issues relating to the Year 2000 are not properly identified, or tested, and if implementation, correction and replacement are not timely effected with respect to potential Year 2000 problems that are identified, there can be no assurance that the Year 2000 issue will not materially adversely affect the Corporation's business and its relationships with carriers, customers, vendors and other third parties. Additionally, there can be no assurance that the Year 2000 issues of other entities will not have a material adverse impact on the Corporation's various businesses, systems or results of operations.

Cautionary Statement Concerning Forward-Looking Statements

Certain information contained in this Management's Discussion and Analysis with respect to financial results and future events and trends, including, without limitation, the statements concerning Year 2000 issues set forth under "Year 2000 Readiness Disclosure", is forward-looking, based on the Corporation's estimates and assumptions and is subject to risks and uncertainties that could cause the Corporation's actual results to differ materially from the forward-looking statements contained in this Management's Discussion and Analysis. For those statements, the Corporation claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

The management of the Corporation is responsible for the preparation and integrity of the consolidated financial statements and all other financial information contained in the Annual Report. These statements have been prepared in accordance with accounting principles generally accepted in the United States of America and necessarily include some amounts that are based on management's best estimates and judgment. Management considers that the statements present fairly the consolidated financial position of the Corporation, the consolidated results of its operations and cash flows. Financial information contained elsewhere in this Annual Report is consistent with the information contained in the consolidated financial statements.

To fulfill its responsibility, management developed and maintains systems of internal accounting controls and establishes policies and procedures designed to ensure the reliability of financial information and to safeguard assets. The internal control systems and financial records are subject to evaluation by internal auditors and by the external auditors during the examination of the consolidated financial statements.

The Board of Directors oversees management's performance of its financial reporting and internal control responsibilities. The Board of Directors carries out its responsibility with regard to the consolidated financial statements primarily through its Audit Committee.

The Audit Committee, which is composed exclusively of outside directors, meets regularly with the internal and external auditors, and with management, to discuss accounting policies and practices, internal control systems, the scope of audit work and to assess reports on audit work performed. The external and internal auditors have direct access to the Audit Committee, with or without the presence of management, to discuss results of their audits and any recommendations they have for improvements in internal controls, the quality of financial reporting and any other matters of interest. The consolidated financial statements have been reviewed and approved by the Board of Directors on the recommendation of the Audit Committee.

Charles Sirois
Chairman of the Board and Chief Executive Officer

Claude Séguin
Executive Vice President, Finance
and Chief Financial Officer

February 8, 1999

To the Shareholders of Teleglobe Inc.:

We, Raymond Chabot Grant Thornton and Arthur Andersen & Cie, have audited the accompanying consolidated balance sheets of Teleglobe Inc. ("Teleglobe") as of December 31, 1998 and 1997 and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years ended December 31, 1998. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. Raymond Chabot Grant Thornton did not audit the consolidated balance sheet of Excel Communications, Inc. ("EXCEL") as of December 31, 1997 and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the two years ended December 31, 1997. EXCEL's assets represent 50.1% of total consolidated assets as of December 31, 1997. EXCEL's revenues represent 49.9% and 54.7% of consolidated revenues for 1997 and 1996, respectively. EXCEL's consolidated financial statements for 1997 and 1996 were audited by Arthur Andersen & Cie whose report has been furnished to Raymond Chabot Grant Thornton, whose opinion, insofar as it relates to the amounts included for EXCEL, is based solely on the report of Arthur Andersen & Cie. Arthur Andersen & Cie did not audit the consolidated balance sheet of Teleglobe as of December 31, 1997 and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the two years ended December 31, 1997 prior to their restatement for the 1998 pooling of interests with EXCEL described in Note 2 to the consolidated financial statements. Teleglobe's assets represent 49.9% of total consolidated assets as of December 31, 1997. Teleglobe's revenues represent 50.1% and 45.3% of the total consolidated revenues for 1997 and 1996, respectively. Teleglobe's consolidated financial statements for 1997 and 1996 were audited by Raymond Chabot Grant Thornton whose report has been furnished to Arthur Andersen & Cie, whose opinion, insofar as it relates to the amounts included for Teleglobe, prior to the restatement for the 1998 pooling of interests with EXCEL, is based solely on the report of Raymond Chabot Grant Thornton.

We, Raymond Chabot Grant Thornton and Arthur Andersen & Cie, conducted our audits in accordance with generally accepted auditing standards in Canada, which are in substantial agreement with those in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We, Raymond Chabot Grant Thornton and Arthur Andersen & Cie, believe that our audits and the reports referred to above of Arthur Andersen & Cie and Raymond Chabot Grant Thornton respectively, provide a reasonable basis for our opinion.

In the opinion of Raymond Chabot Grant Thornton and Arthur Andersen & Cie, based on our audits and the reports referred to above of Arthur Andersen & Cie and Raymond Chabot Grant Thornton, respectively, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Teleglobe, as of December 31, 1998 and 1997, and the consolidated results of its operations and cash flows for each of the three years ended December 31, 1998 in conformity with generally accepted accounting principles in the United States of America.

We, Raymond Chabot Grant Thornton and Arthur Andersen & Cie, also reported separately, on February 8, 1999, to the Shareholders of Teleglobe on the 1998 consolidated financial statements, expressed in Canadian dollars, prepared in accordance with generally accepted accounting principles in Canada.

Raymond Chabot Grant Thornton

Montréal, Canada
February 8, 1999

Raymond Chabot Grant Thornton
Chartered Accountants
General Partnership

Arthur Andersen & Cie

Arthur Andersen & Cie
Chartered Accountants
General Partnership

Consolidated Statements of Operations

For the years ended December 31, 1998, 1997 and 1996 *(In millions of U.S. dollars, except share data)*	1998	1997	1996
Revenues			
Telecommunication	$ 2,969.4	$ 2,391.0	$ 1,795.9
Telecommunication revenues from related parties	348.6	401.9	413.0
Marketing services	70.9	121.3	260.7
Total revenues	3,388.9	2,914.2	2,469.6
Operating expenses			
Telecommunication and network	2,017.8	1,745.1	1,362.9
Selling, general and administrative	892.5	686.2	656.0
Depreciation and amortization	132.4	102.3	112.6
Other operating items	257.1	138.3	–
Total operating expenses	3,299.8	2,671.9	2,131.5
Operating income	89.1	242.3	338.1
Interest expense	65.3	39.8	30.8
Other income (loss)			
Investment income (loss)	(13.2)	7.8	16.1
Other	2.2	15.6	18.7
Total other income (loss)	(11.0)	23.4	34.8
Income from continuing operations before income taxes, minority interests, cumulative effect of change in accounting principle and extraordinary item	12.8	225.9	342.1
Provision for income taxes	8.6	116.0	116.4
Income from continuing operations before minority interests, cumulative effect of change in accounting principle and extraordinary item	4.2	109.9	225.7
Minority interests	10.7	6.8	3.8
Income from continuing operations before cumulative effect of change in accounting principle and extraordinary item	14.9	116.7	229.5
Cumulative effect of change in accounting principle, net of income taxes of $39.6	–	(65.2)	–
Income from continuing operations before extraordinary item	14.9	51.5	229.5
Income (loss) from discontinued operations, net of income taxes of nil and $0.4 in 1997 and 1996, respectively	–	(5.4)	3.6
Gain on disposal of discontinued operations, net of income taxes of $10.1	–	65.2	–
Income before extraordinary item	14.9	111.3	233.1
Extraordinary item	–	–	22.1
Net income	14.9	111.3	211.0
Preferred dividends	(4.5)	(5.9)	(9.3)
Net income to common shareholders	$ 10.4	$ 105.4	$ 201.7
Basic earnings per share			
Continuing operations before change in accounting principle	$ 0.04	$ 0.49	$ 1.05
Cumulative effect of change in accounting principle, net	–	(0.29)	–
Discontinued operations, net	–	0.26	0.02
Extraordinary item	–	–	(0.11)
Net income to common shareholders	0.04	0.46	0.96
Basic weighted average common shares	247,367,951	226,094,814	209,348,720
Diluted earnings per share			
Continuing operations before change in accounting principle	$ 0.04	$ 0.48	$ 0.99
Cumulative effect of change in accounting principle, net	–	(0.28)	–
Discontinued operations, net	–	0.26	0.01
Extraordinary item	–	–	(0.09)
Net income to common shareholders	0.04	0.46	0.91
Diluted weighted average common shares	252,965,282	233,239,335	232,869,395
Dividends per common share	$ 0.13	$ 0.12	$ 0.10

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the years ended December 31, 1998, 1997 and 1996 *(In millions of U.S. dollars)*	**1998**	1997	1996
Net income	**$ 14.9**	$111.3	$211.0
Other comprehensive income (loss)			
Foreign currency translation adjustments, net of income taxes of nil for 1998, 1997 and 1996	**(52.8)**	(24.7)	0.3
Comprehensive income (loss)	**$(37.9)**	$ 86.6	$211.3

The accompanying notes are an integral part of these consolidated financial statements.

December 31, 1998 and 1997 *(In millions of U.S. dollars, except share data)*	1998	1997
ASSETS		
Current assets		
Cash and cash equivalents	$ 76.9	$ 63.5
Accounts receivable, net of allowance of $86.1 and $70.0 for 1998 and 1997, respectively	598.5	634.3
Accounts receivable from related parties	54.7	108.6
Deferred income tax asset	21.3	34.1
Other current assets	110.7	84.1
	862.1	924.6
Investments	233.1	378.2
Property, plant and equipment, net	889.9	845.4
Deferred income tax asset	50.3	34.3
Deferred charges and other	90.8	74.7
Intangibles, net	1,016.4	1,013.0
	$3,142.6	$3,270.2
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term credit facilities	$ 65.1	$ –
Accounts payable	348.4	440.0
Accrued liabilities	386.7	309.2
Accounts payable to related parties	6.4	31.1
Other current liabilities	69.2	67.4
Current maturities of long-term debt	6.3	5.8
	882.1	853.5
Long-term debt	702.1	794.0
Deferred management services fees and other long-term liabilities	21.2	62.7
Deferred income tax liability	–	66.1
	1,605.4	1,776.3
Minority interests	–	17.5
Commitments and contingencies		
Shareholders' equity		
Preferred shares		
First series, no par value, unlimited shares authorized, none issued and outstanding at December 31, 1998 (2,570,000 at December 31, 1997)	–	12.8
Third series, no par value, unlimited shares authorized, 5,000,000 issued and outstanding	89.1	89.1
Common shares		
Common shares, no par value, unlimited shares authorized, 253,139,738 issued at December 31, 1998 (244,794,130 at December 31, 1997)	1,150.4	992.0
Other comprehensive income	(60.9)	(8.1)
Treasury shares, none at December 31, 1998 (58,233 common shares at cost, at December 31, 1997)	–	(0.9)
Retained earnings	358.6	391.5
	1,537.2	1,476.4
	$3,142.6	$3,270.2

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Shareholders' Equity

For the years ended December 31, 1998, 1997 and 1996

(In millions of U.S. dollars, except share data)	1998		1997		1996	
	Shares	Amount	Shares	Amount	Shares	Amount
Common shares						
Balance at beginning of year	244,794,130	$ 992.0	209,607,744	$ 528.9	201,583,888	$392.5
Shares repurchased	(713,200)	(2.4)	(75,436)	(0.3)	(1,111,400)	(3.9)
Exercise of options	1,107,183	6.9	254,090	1.2	389,178	2.0
Conversion of first series preferred shares	2,570,000	12.8	–	–	–	–
Conversion of second series preferred shares	–	–	13,874,190	53.5	73,078	0.3
Issuance of common shares	5,400,000	141.4	23,569,657	464.4	8,673,000	133.9
Allocation of common shares to employees	–	–	–	–	–	4.1
Cancellation of treasury shares	(18,375)	(0.3)	(2,436,115)	(55.7)	–	–
Balance at end of year	253,139,738	1,150.4	244,794,130	992.0	209,607,744	528.9
First series preferred shares						
Balance at beginning of year	2,570,000	12.8	2,570,000	12.8	2,570,000	12.8
Conversion to common shares	(2,570,000)	(12.8)	–	–	–	–
Balance at end of year	–	–	2,570,000	12.8	2,570,000	12.8
Third series preferred shares	5,000,000	89.1	5,000,000	89.1	5,000,000	89.1
Unearned compensation						
Balance at beginning of year		–		–		(2.2)
Allocation of common shares to employees		–		–		2.2
Balance at end of year		–		–		–
Retained earnings						
Balance at beginning of year		391.5		313.4		143.4
Net income		14.9		111.3		211.0
Cash dividends and related taxes		(37.4)		(32.1)		(29.4)
Excess of redemption price of common shares over stated value		(10.4)		(1.1)		(11.6)
Balance at end of year		358.6		391.5		313.4
Accumulated other comprehensive income (loss)						
Balance at beginning of year		(8.1)		16.6		16.3
Foreign currency translation adjustments		(52.8)		(24.7)		0.3
Balance at end of year		(60.9)		(8.1)		16.6
Treasury shares						
Balance at beginning of year	(58,233)	(0.9)	–	–	–	–
Purchase of treasury shares	(1,356,729)	(28.8)	(2,494,348)	(56.6)	–	–
Cancellation of treasury shares	18,375	0.3	2,436,115	55.7	–	–
Issuance of treasury shares	1,396,587	29.4	–	–	–	–
Balance at end of year	–	–	(58,233)	(0.9)	–	–
Total shareholders' equity		$1,537.2		$1,476.4		$960.8

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31, 1998, 1997 and 1996 *(In millions of U.S. dollars)*	1998	1997	1996
Operating activities			
Net income	$ 14.9	$ 111.3	$ 211.0
Less: Income (loss) from discontinued operations	–	(5.4)	3.6
Gain on disposal of discontinued operations	–	65.2	–
Income from continuing operations	14.9	51.5	207.4
Adjustments to reconcile net income to net cash provided by operating activities of continuing operations:			
Depreciation and amortization	132.4	102.3	112.6
Write-down of assets and investments	283.7	73.7	–
Gain on disposal of investments	(50.8)	–	–
Deferred income taxes	(66.1)	(16.6)	2.5
Restructuring and reorganization charges	–	64.6	–
Cumulative effect of change in accounting principle	–	65.2	–
Extraordinary item	–	–	22.1
Other items	7.6	(11.0)	(13.0)
Changes in assets and liabilities, net of impact of acquisition:			
Accounts receivable, net	46.3	(170.2)	(200.0)
Other current assets	(36.7)	9.4	2.2
Deferred charges and other	(18.6)	(24.0)	(36.4)
Accounts payable	(5.7)	168.8	80.9
Accrued liabilities	(3.0)	2.5	42.2
Other	(6.1)	(19.6)	15.6
Net cash provided by activities of continuing operations	297.9	296.6	236.1
Investing activities			
Purchase of property, plant and equipment	(435.5)	(161.0)	(120.2)
Acquisition of Telco, net of cash acquired	–	(475.6)	–
Proceeds from sale of businesses and investments	215.8	14.4	8.4
Proceeds from disposal of property, plant and equipment	14.6	6.9	10.7
Purchase of franchise agreements	(33.6)	(3.5)	–
Net change in investments	(111.5)	26.9	(85.4)
Net change in other assets	(10.9)	7.0	(26.3)
Net cash used in investing activities	(361.1)	(584.9)	(212.8)
Financing activities			
Payment of long-term debt	(3,160.5)	(434.6)	(43.0)
Proceeds from issuance of long-term debt, net of issuance costs	3,086.9	656.6	94.9
Proceeds from short-term credit facilities	65.1	–	–
Purchase of treasury shares	(28.8)	(56.6)	–
Payment of dividends	(37.4)	(32.1)	(49.4)
Net proceeds from issuance of common shares	177.7	5.8	135.9
Repurchase of common shares	(12.8)	(1.4)	(15.5)
Net cash provided by financing activities	90.2	137.7	122.9
Net cash used in discontinued operations	–	(14.5)	(0.7)
Effect of changes in exchange rates on cash	(13.6)	(2.2)	(0.4)
Net increase (decrease) in cash and cash equivalents	13.4	(167.3)	145.1
Cash and cash equivalents, beginning of year	63.5	230.8	85.7
Cash and cash equivalents, end of year	$ 76.9	$ 63.5	$ 230.8
Supplemental disclosure			
Interest paid during the year	$ 74.1	$ 34.0	$ 31.6
Income taxes paid during the year	48.2	119.5	132.3

The accompanying notes are an integral part of these consolidated financial statements.

(In millions of U.S. dollars, except share data)

1. Statutes, Nature of Operations and Regulatory Regime

a) Statutes and Nature of Operations

Teleglobe Inc. is incorporated under the *Canada Business Corporations Act* and is a facilities-based carrier that provides international telecommunication services either directly or through its subsidiaries. These services, which include voice, data, Internet and value-added communications, are offered primarily on a wholesale basis, to carriers and Internet service providers on every continent. In addition, the entity resulting from the business combination (the "merger") of Teleglobe Inc. and Excel Communications, Inc. ("EXCEL"), hereafter referred to as the "Corporation", also provides retail services such as long distance, paging and, more recently, Internet services to both residential and commercial customers in the United States of America ("U.S.") (see Note 2).

Until October 1, 1998, the Corporation, through its subsidiary Teleglobe Canada Inc. ("TCI"), was the sole authorized provider of facilities-based telecommunication services between Canada and other countries, excluding the U.S. In 1997, as a result of Canada's commitment under the World Trade Organization agreement on basic telecommunication services ("WTO Agreement") of February 1997, the Government of Canada announced that TCI's mandate would expire on October 1, 1998 (see Note 5 a).

i) **International Telecommunication Activities**

The Corporation, through its Teleglobe Communications Corporation ("TCC") operations, earns revenues from international services provided through the telecommunications network of TCC. To a lesser extent, the Corporation also earns international service revenues from long distance telecommunications provided to both residential and commercial customers by EXCEL in the U.S. The revenues earned from TCC's international services, mainly voice and data, consist of charges to carriers for the routing of traffic to other countries. Also included are revenues from Internet connectivity, leased circuits as well as broadcast and mobile services. The Corporation pays terminating charges (included in "Telecommunication and network" expenses) to other carriers to compensate them for their part in the distribution of telecommunications traffic.

ii) **Long Distance and Marketing Service Activities**

The Corporation, through its EXCEL operations, provides long distance, paging and, more recently, Internet services to both residential and commercial customers in the U. S. EXCEL has developed several marketing channels for its services, including direct sales to residential and commercial customers through independent representatives ("IRs"), dealers and internal sales personnel, as well as the direct mail marketing of several dial-around products. To provide its services, EXCEL is building a switch-based telecommunications network and is also leasing transmission lines from a variety of facilities-based and resale long distance carriers.

Marketing service revenues are primarily comprised of receipts pertaining to materials and services rendered by EXCEL to IRs and area coordinators ("ACs"). Except in certain states, IRs are required to make an initial refundable application deposit with EXCEL as an expression of commitment. There is no additional cost to participate. IRs have an option to purchase a start-up package, which includes a training class and training materials, business forms, promotional and presentation materials, ongoing technical and administrative support services, and monthly reports. If the start-up package is purchased, the application deposit requirement is waived. In addition, EXCEL offers training positions whereby ACs, certified by EXCEL, provide training to new IRs.

"Selling, general and administrative expenses" include marketing costs and the costs associated with providing teleservices and other support services for subscribers, with billing and collecting long distance and paging revenues, and with the information systems and personnel required to support EXCEL's operations. Effective January 1, 1997, EXCEL changed its method of accounting for subscriber acquisition costs to expense these costs as incurred (see Note 6).

The Corporation expenses advertising and promotion costs in the period in which they are incurred. These include direct mail advertising and marketing costs relating to long-distance products.

b) Regulatory Regime

i) **Canadian Regulation**

TCI is subject to regulation by the Canadian Radio-television and Telecommunications Commission ("CRTC").

TCI is regulated pursuant to Telecom Decision CRTC 96-2 under a form of price regulation which includes a price reduction commitment regime for telephone services and a price ceiling for non-telephone services for the period terminating on December 31, 1999, barring exceptional changes to TCI's operating environment. This regulatory framework also provides for tariff filings, approval procedures and financial monitoring. Prior to 1996, TCI was subject to rate-base/rate-of-return regulation.

1. Statutes, Nature of Operations and Regulatory Regime (continued)

On October 2, 1997, the CRTC issued Telecom Public Notice CRTC 97-34 in which the Commission requested proposals and comments on the regulatory regime (including the introduction of licensing requirements) that should apply to the provision of international telecommunication services, effective October 1, 1998, when TCI's exclusive mandate was scheduled to expire. This proceeding specifically included a review of routing restrictions and of the regulations applicable to TCI.

On October 1, 1998, the date when the Corporation's exclusive mandate officially ended, the CRTC issued Telecom Decision CRTC 98-17 which substantially changed the regulatory framework governing the provision of international services in Canada. In summary, the CRTC established a licensing regime which, among other things, prescribes a basic condition of license prohibiting the licensee from engaging in anti-competitive conduct. The regime also establishes a condition of license requiring service providers who operate facilities used in transporting basic telecommunications traffic between Canada and another country to file certain information as to the traffic they carry and the agreements and arrangements they enter into. The CRTC decision also eliminated the rules prohibiting the routing of Canada-Canada calls and Canada-overseas calls through the U.S., thereby removing all traffic routing restrictions. Finally, the CRTC maintained the regulatory regime that applies specifically to the Corporation except with respect to Canada-Canada and Canada-U.S. traffic.

ii) U.S. Legislative and Regulatory Matters

The Corporation's primary U. S. affiliates, Teleglobe USA Inc. ("TUSA") and EXCEL are subject to the Communications Act of 1934 ("Act"), as amended, and the regulatory jurisdiction of the Federal Communications Commission ("FCC"). In many states, state public utilities commissions also regulate the provision of telecommunications services. The U.S. Telecommunications Act of 1996 ("1996 Act") included substantial revisions to the Act which were intended to promote competition among and between local exchange carriers ("LEC's"), cable television operators, and long distance providers, and to establish a broad national telecommunications policy. Among other things, the 1996 Act permits entry of the Bell Operating Companies ("BOC's") into the long distance services business within their local exchange territories on their conformance to a specific set of criteria demonstrating that they have established practical opportunities for entry into their local markets by competing local carriers.

The FCC's implementation of the 1996 Act has resulted in significant litigation which has delayed the advent of local exchange competition in the U.S. Among these actions was the successful appeal of the FCC's 1997 order establishing baseline national rules pursuant to which incumbent LEC's are to make available the use of their networks by competitors. The appeal led to an order of the U.S. Court of Appeals in 1997 which interpreted the 1996 amendments to the Act in a way which greatly diminished the authority of the FCC to set national guidelines for local carrier interconnection, and was viewed as a setback to potential new competitors, including the Corporation.

On January 25, 1999, the United States Supreme Court reversed the appeals court decision and interpreted the 1996 Act as vesting broad authority in the FCC to adopt local exchange competition policy. The decision has been widely viewed as providing the FCC with important regulatory tools to promote the development of local exchange competition. It is not, however, possible to determine the extent to which the Supreme Court's order will accelerate the introduction of practical local exchange opportunities for the Corporation in particular markets.

On March 3, 1998, the FCC granted TUSA additional authority under Section 214 of the Act to provide international service between the U.S. and Canada, and beyond, using international transmission facilities owned by TUSA.

On May 8, 1998, the FCC granted authority to the Corporation to acquire the remaining 80% of Optel Communications Inc. ("Optel") that it did not already own. Optel holds the U.S. submarine cable landing license for the CANUS 1 system which extends between the U.S. and Canada. The Corporation already held the license for the Canadian landing.

2. Teleglobe-EXCEL Merger

On November 10, 1998, Teleglobe Inc. completed a merger of one of its wholly-owned subsidiaries with EXCEL, by exchanging 117,627,338 shares of its common stock for all of the common shares of EXCEL. Each share of EXCEL was exchanged for 0.885 share of Teleglobe Inc. common shares. In addition, outstanding EXCEL employee stock options were converted at the same exchange factor into options to purchase approximately 8,277,075 shares of Teleglobe Inc. common shares and the exercise price per share with respect to each such converted option was adjusted to equal the exercise price under the original option divided by 0.885.

The merger has been accounted for as a pooling of interests under Accounting Principles Board Opinion ("APB") No. 16. Accordingly, all prior period consolidated financial statements presented have been restated to include the consolidated results of operations, financial position and cash flows of EXCEL as though it had always been a part of Teleglobe Inc.

2. Teleglobe-EXCEL Merger (continued)

There were no material transactions between Teleglobe Inc. and EXCEL prior to the combination. Certain reclassifications were made to the EXCEL consolidated financial statements to conform to Teleglobe Inc.'s presentation.

The results of operations for the separate companies and the combined amounts presented in the consolidated financial statements follow.

	1997	1996
Revenues		
Teleglobe Inc.	$1,459.9	$1,118.3
EXCEL	1,454.3	1,351.3
Combined	$2,914.2	$2,469.6
Extraordinary item		
Teleglobe Inc.	$ –	$ 22.1
EXCEL	–	–
Combined	$ –	$ 22.1
Net income to common shareholders		
Teleglobe Inc.	$ 82.7	$ 57.3
EXCEL	22.7	144.4
Combined	$ 105.4	$ 201.7

As a direct result of the merger with EXCEL, the Corporation recorded a charge totaling $21.3 during the fourth quarter of 1998 for direct incremental costs incurred in completing the merger (see Note 5 b).

3. Significant Accounting Policies

a) Financial Statement Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. They include the accounts of the Corporation and its subsidiaries. All significant intercompany transactions and balances have been eliminated upon consolidation.

Investments in affiliates in which the Corporation does not have control, but has the ability to exercise significant influence over operating, investing and financial policies, are accounted for under the equity method. Under the equity method, investments originally recorded at cost are adjusted to recognize the Corporation's share of the net earnings or losses of the companies as they occur, rather than as dividends or as other distributions are received, limited to the extent of the Corporation's investment in, advances to, and guarantees for these investments. Investments in which the Corporation does not have the ability to exercise significant influence over operating, investing and financial policies are accounted for under the cost method.

b) Regulatory Principles

Prior to 1996, TCI's services were regulated by the CRTC under a rate-base/rate-of-return methodology. Accordingly, TCI effectively accounted for its operations following the provisions of Statement of Financial Accounting Standard ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation" ("SFAS No. 71"). In 1996, the CRTC revised the method of regulation for the Corporation. Instead of the rate-of-return regulation involving the recovery of costs through rates charged to customers, the CRTC approved an incentive form of regulation involving the setting of price caps. Under price-cap regulation, the Corporation is not assured of recovering costs through its rates, thus, certain regulatory assets which were recognized under the cost recovery method of regulation had to be expensed or written down to realizable values under price-cap regulation. Accordingly, TCI decided in 1996 to discontinue the application of SFAS No. 71 as it related to the recognition of regulatory assets and liabilities.

Upon termination of its exclusive mandate as the sole provider of facilities-based overseas telecommunication services in Canada by the Government of Canada on October 1, 1998, and in light of continued trends in technological innovation and the introduction of significant competition in the international telecommunications market, TCI determined that it was appropriate to reflect the financial accounting effect of the completion of the deregulation process and adjust the net carrying value of its telecommunications assets at December 31, 1998 to reflect the assets' fair value (see Note 5 a).

c) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates and assumptions also affect revenues and expenses during the period reported. Actual results could differ from these estimates.

3. Significant Accounting Policies (continued)

d) Revenue Recognition

In applying terms and conditions for revenue sharing with other carriers, the Corporation recognizes the international telecommunication revenues from and shares owed to carriers as services are rendered and estimates the amount of such revenues and shares which the carriers have not reported at year-end. International telecommunication revenues are stated before any allocation of the costs associated with these revenues.

Long distance telecommunication and marketing revenues are recorded when services are rendered. They are measured when long distance calls are completed and recorded net of an allowance for certain revenues which the Corporation estimates will ultimately be refunded, rebated, uncollectible or unbillable.

Revenues from other telecommunication services are recognized as the services are provided.

e) Foreign Currency Translation

The accounts of the Corporation are translated in accordance with SFAS No. 52, "Foreign Currency Translation". The Corporation's management has elected to present these consolidated financial statements in U.S. dollars. The consolidated financial statements are translated from the currency of measurement, the Canadian dollar, into the reporting currency, the U.S. dollar, utilizing the current rate method. Accordingly, assets and liabilities are translated at exchange rates in effect at the end of the year, and revenues and expenses are translated at the weighted average exchange rate during the year. All cumulative translation gains or losses from the translation into the Corporation's reporting currency are included as a component of "Other comprehensive income".

Foreign currency transaction gains (losses) included in "Other income (loss)" result from the change in exchange rates used between the transaction and settlement date for the translation of foreign currency transactions.

As a result of telecommunication revenues and a significant portion of operating expenses and assets being denominated in U.S. dollars and the increasing international focus of the Corporation's operations, the U.S. dollar will become the currency of measurement and the reporting currency effective January 1, 1999.

f) Derivative Financial Instruments

The Corporation uses derivative financial instruments to reduce its exposure to market risks from changes in interest rates and foreign exchange rates. The Corporation has designated its interest rate swaps as hedges and records the interest expense based on the agreements' fixed rates.

The Corporation hedges its foreign exchange exposure through a variety of strategies and financial instruments, including forward exchange contracts, foreign currency swap contracts, and foreign currency option contracts. The Corporation uses these strategies to hedge both revenues and operating expenses and the working capital of its international subsidiaries, as applicable. The fair value of the foreign currency contracts is estimated based on the spot rate of the various hedged currencies at the end of the period. Gains and losses associated with currency rate changes on foreign exchange contracts are recorded currently in income. The majority of the Corporation's foreign currency contracts mature within 12 months. There were none outstanding as of December 31, 1998.

g) Income Taxes

The Corporation applies the provisions of SFAS No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). Under the provisions of SFAS No. 109, the Corporation recognizes a current tax liability or asset for current taxes payable or receivable and a deferred tax liability or asset for the estimated future tax effects of temporary differences between the carrying value of assets and liabilities for financial reporting and their tax basis and tax losses carryforward to the extent they are realizable.

h) Cash and Cash Equivalents

Cash equivalents consist of short-term deposits.

i) Accounts Receivable

Accounts receivable are net of an allowance for doubtful accounts and anticipated telecommunication revenue adjustments. The Corporation establishes an allowance for doubtful accounts and anticipated telecommunication revenue adjustments based on factors surrounding the credit risk of specific customers, as well as historical trends and other information.

3. Significant Accounting Policies (continued)

j) Concentration of Credit Risk

The Corporation, through its EXCEL operations, has agreements with LEC's, which provide billing and collection services to the majority of EXCEL's subscribers. EXCEL's subscribers are primarily residential and commercial subscribers and are not concentrated in any specific geographic region of the U.S. As of December 31, 1998 and 1997, approximately 22.5% and 30.9%, respectively, of the Corporation's accounts receivable, were due from LEC's. In addition, the Corporation is exposed to credit risks for the accounts receivable from Stentor Canadian Network Management (see Note 20). The concentration of risk from other customers is limited by the large number of customers.

k) Property, Plant and Equipment

Property, plant and equipment, including items financed through capital leases, are recorded at cost including, when applicable, salaries, employee benefits and interest costs incurred to finance construction.

The cost of construction in progress is transferred to the appropriate asset category, based on the nature of the project, as construction projects are completed and/or equipment is placed in service.

Investments in cable systems correspond to the Corporation's share of the cost of the systems as well as indefeasible rights of use which it holds in international cables held by third parties.

Depreciation is calculated using the straight-line method over the expected useful life of the property, plant and equipment. The Corporation periodically reviews and adjusts the useful lives assigned to property, plant and equipment to ensure that depreciation charges provide appropriate recovery of capital costs over the estimated physical and technological lives of the assets.

The estimated useful lives of property, plant and equipment are as follows (see Note 5 a):

Telecommunications equipment	5 to 35 years
Buildings, plant and equipment	3 to 40 years
Cable systems	15 years
Computer software and equipment	3 to 5 years
Cable ships and submersible craft	7 to 21 years
Leasehold improvements and other	Term of the lease

Each year, the Corporation assesses the impairment of property, plant and equipment under SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" ("SFAS No. 121"), and when events or changes in circumstances indicate that the carrying value may not be recoverable, a determination of impairment is made based on estimates of future cash flows.

Any gain or loss resulting from the sale or retirement of property, plant and equipment is charged to income for the year. Maintenance, repairs and reengineering costs are charged to expense as incurred.

l) Intangibles

Goodwill, which represents the excess purchase price over the fair value of the underlying net assets of acquired subsidiaries and businesses at the date of acquisition, and certain identifiable intangibles are amortized over periods ranging from 5 to 40 years on a straight-line basis. The accumulated amortization on intangibles is $70.8 and $31.3 as of December 31, 1998 and 1997, respectively.

Each year, the Corporation assesses the impairment of intangibles under SFAS No. 121, and when events or changes in circumstances indicate that the carrying value may not be recoverable, a determination of impairment is made based on estimates of future cash flows (see Note 5 a).

m) Deferred Charges

The following deferred charges are recorded at cost and amortized using the straight-line method over the following periods:

Fiber-optic capacity	Term of the leases (between 9 and 10 years)
Franchise agreements	Term of the agreements (between 15 and 22 years)
Long-term debt issuance costs	Term of the debt (between 8 and 30 years)

Each year, the Corporation assesses the impairment of deferred charges under SFAS No. 121, and when events or changes in circumstances indicate that the carrying value may not be recoverable, a determination of impairment is made based on estimates of future cash flows (see Note 5 a).

3. Significant Accounting Policies (continued)

n) Pension Plans

The Corporation has various contributory and non-contributory defined benefit pension plans and defined contribution retirement plans. For defined benefit pension plans, current service costs are recorded in income in the year the services are rendered, while past service costs as well as experience gains and losses which have not been recorded in income are amortized over the average remaining service life of the active employee group covered by the plans. The difference between the contributions paid and plan expenses is included under "Deferred charges and other" on the balance sheet.

o) Earnings Per Share

In 1997, the Corporation adopted the provisions of SFAS No. 128, "Earnings per Share" ("SFAS No. 128") regarding the calculation and presentation of earnings per share ("EPS") data. Under SFAS No. 128, "Basic EPS" excludes the dilutive effect of the conversion of options and preferred shares and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. "Diluted EPS", reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares using the treasury stock method. The Corporation is required to disclose both basic and diluted EPS. All prior period EPS data have been restated to conform to SFAS No. 128.

The weighted average number of common shares has been restated to include EXCEL shares at the exchange ratio of 0.885 to one for prior years presented and to reflect the two-for-one stock split which was effected on June 15, 1998.

p) Stock-Based Compensation

The Corporation, as permitted by SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in APB No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"). Accordingly, compensation cost for common share options is measured as the excess, if any, of the quoted market price of the Corporation's common shares at the date of grant over the amount an employee must pay to acquire the common shares. The Corporation has adopted the disclosure requirements of SFAS No. 123.

q) Recent Accounting Pronouncements

i) Computer Software

In March 1998, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). SOP 98-1 must be adopted no later than January 1, 1999, and defines internal-use software and requires that the cost of such software be capitalized and amortized over its useful life. Presently, the Corporation's policy is to capitalize the costs of computer software developed or obtained for internal use. Based on the Corporation's current policy, SOP 98-1 will not have an impact on the consolidated results of operations or financial condition.

ii) Cost of Start-Up Activities

In April 1998, the AICPA also issued SOP 98-5, "Reporting on the Costs of Start-Up Activities" ("SOP 98-5"), to provide guidance to all non-governmental entities on financial reporting of costs of start-up activities. SOP 98-5 must be adopted no later than January 1, 1999 and requires that costs of start-up activities be expensed as incurred. Based on the Corporation's current policy for costs of start-up activities, SOP 98-5 will not have an impact on the consolidated results of operations or financial condition.

iii) Derivative Instruments and Hedging Activities

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). SFAS No. 133 must be adopted for fiscal years beginning after June 15, 1999 and establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The Corporation is currently assessing the impact of adopting SFAS No. 133.

4. EXCEL – Telco Merger

On October 14, 1997, EXCEL acquired all of the outstanding shares of Telco Communications Group, Inc. ("Telco") pursuant to the Agreement and Plan of Merger ("Agreement") dated as of June 5, 1997 ("the EXCEL – Telco Merger"). Under the Agreement, each outstanding share of Telco common stock was converted into 0.7595 shares of common stock of EXCEL and $15.00 in cash. In addition, except for certain options, each then outstanding and unexercised option to acquire one share of Telco common stock was converted into an option to acquire 1.5190 shares of EXCEL common stock, and the exercise price per share with respect to each such assumed option was adjusted to equal the exercise price under the original option divided by 1.5190. Consideration for the EXCEL – Telco Merger consisted of $665.7 in cash (including $164.5 of Telco debt assumed and paid by EXCEL) and 25,376,506 shares of common stock, $0.001 par value, of EXCEL.

The EXCEL – Telco Merger has been accounted for under the purchase method of accounting and accordingly the purchase price and acquisition costs were allocated to the assets acquired. The results of operations for the year ended December 31, 1997 include Telco's financial results after October 14, 1997, the effective date of the EXCEL – Telco Merger. In connection with the purchase method of accounting, EXCEL recorded certain known liabilities related to costs required to exit activities of Telco and payments to be made under a severance plan.

In 1997, upon completion of the EXCEL – Telco Merger, EXCEL developed plans to consolidate the operations of Telco into those of EXCEL. These plans included the closing of the Telco network engineering facilities in Schaumberg, Illinois, the Telco headquarters facility and administrative offices in Chantilly, Virginia, the Telco customer services functions, the Telco telecommunication network monitoring facilities in Austin, Texas and four Telco network switching facilities. Total headcount affected was 440. These Telco operations were to be relocated and combined with similar operations of EXCEL. As of December 31, 1998, total costs incurred in closing these facilities, severing personnel and relocating the remaining personnel were $25.3. Costs accrued to be incurred in 1999 to complete consolidation plans are $14.1. Management is currently integrating the two organizations and expects to complete the process by the end of 1999. To the extent unused, the accrual for the Telco integration costs will be used to reduce goodwill recorded in the EXCEL – Telco Merger.

In conjunction with the EXCEL – Telco Merger, net cash paid was as follows:

Assets acquired	$1,332.1
Liabilities assumed	(365.4)
Common shares issued	(465.5)
Cash paid	501.2
Less: Cash acquired	(25.6)
Net cash paid	$ 475.6

The merger with Telco resulted in the recognition of goodwill of $906.6 which is being amortized straight-line over a period of 40 years. The following unaudited financial information presents the Corporation's results of operations for the year ended December 31, 1997 on a pro forma basis as if the EXCEL – Telco Merger had occurred on January 1, 1997:

	1997
Total revenues	$3,357.4
Income from continuing operations before cumulative effect of change in accounting principle	$ 122.8
Income from continuing operations	$ 57.6
Earnings per share from continuing operations before cumulative effect of change in accounting principle	$ 0.52
Earnings per share from continuing operations	$ 0.22

These pro forma results exclude a charge for reorganization and restructuring of $64.6 in 1997 (see Note 5 f).

These pro forma amounts present the historical operating results of the Corporation and Telco combined with appropriate adjustments which give effect to incremental goodwill amortization and interest expense incurred in connection with the EXCEL – Telco Merger. These pro forma amounts do not give effect to any potential cost savings or other operational changes that could result from the EXCEL – Telco Merger. The pro forma data are not intended to be indicative of actual results had the EXCEL – Telco Merger occurred on January 1, 1997 nor do they indicate results which may be achieved in the future.

5. Other Operating Items

A summary of other operating items for the years ended December 31, 1998 and 1997 is as follows:

	1998	1997
Asset Impairment	**$280.7**	$ –
Teleglobe – EXCEL Merger-Related Costs	**21.3**	–
Gain on Sale of Interests in INMARSAT and Stratos Wireless Inc.	**(15.4)**	–
Gain on Sale of CGI Group Inc. Shares	**(32.5)**	–
Write-down of Investments	**3.0**	–
EXCEL – Telco Restructuring Expense	–	64.6
Globesystem Atlantic™ Impairment	–	57.8
Optel Impairment	–	15.9
	$257.1	$138.3

a) Asset Impairment

Following the expiry of TCI's exclusive mandate as the sole provider of facilities-based overseas telecommunication services in Canada on October 1, 1998, the Corporation recorded a non-cash charge, in the fourth quarter of 1998, related to a write-down in the carrying value of certain assets of $252.6, as determined under the provisions of SFAS No. 121. Also included in the "Write-down of property, plant and equipment" is the write-down of $28.1 of some computer systems which have been replaced by EXCEL. Management's estimate of the Corporation's fair value of operating assets resulted in a reduction in the book value of the assets as follows:

Write-down of property, plant and equipment	$244.6
Write-down of intangibles	15.7
Write-down of deferred charges and other	20.4
	$280.7

The fair value of the assets was determined by estimating the present value of future cash flows to be generated from those operations that were subject to the exclusive mandate on facilities-based overseas telecommunications in Canada. In light of continued trends in technological innovation and asset replacement and the introduction of significant competition in the international telecommunications market, the Corporation reviewed and adjusted the estimated useful lives of certain telecommunications equipment previously ranging from 5 to 15 years, to 5 to 7 years, and cable systems previously ranging from 14 to 20 years, to 15 years.

b) Teleglobe – EXCEL Merger-Related Costs

Direct incremental costs consist of expenses associated with completing the merger transaction such as professional and regulatory fees.

c) Gain on Sale of Interests in INMARSAT and Stratos Wireless Inc.

On September 10, 1998, the Corporation sold the assets comprising all of its International Maritime Satellite Organization ("INMARSAT") mobile satellite communication services for a total consideration of $55.9 and recorded a gain on disposal of $15.4. These assets include the Corporation's interest and signatory status in INMARSAT, its interest in a joint venture which provides INMARSAT B&M global services, its interest in the SATELLITE AIRCOM consortium as well as two tracking, telemetry and command stations used in the positioning and tracking of INMARSAT satellites (see Note 10 a). As part of this transaction, the Corporation also sold its 29.2% interest in Stratos Wireless Inc. ("Stratos").

d) Gain on Sale of CGI Group Inc. Shares

On December 18, 1997, the Corporation reached an agreement with an underwriting syndicate to sell all its CGI Group Inc. ("CGI") Class A subordinate shares, which the Corporation had acquired on the disposal of its Insurance Systems operations, for a total consideration of $169.7, net of related expenses (see Note 7). At the beginning of 1998, the agreement was modified and BCE Inc. ("BCE") became a purchaser of 6 million of these shares. The transaction closed in early January 1998 and the Corporation recorded a gain on disposal of $32.5 in the first quarter of fiscal 1998.

e) Write-down of Investments

In the third quarter of 1998, the Corporation wrote down to its net realizable value, its investment in Jazz Media Network and other projects undertaken by Teleglobe Media Enterprises. Accordingly, a charge of $3.0 was applied against income.

5. Other Operating Items (continued)

f) EXCEL – Telco Restructuring Expense

During the fourth quarter of 1997, primarily as a result of the EXCEL – Telco Merger, the Corporation initiated plans to reorganize and restructure its management and operational organization and facilities to eliminate duplicate facilities, abandon certain projects and activities, and to take further advantage of the synergies available to the combined entities. Accordingly, the Corporation recorded a charge of $64.6 to its operations for the estimated costs of such reorganization and restructuring activities in addition to certain legal expenses, vendor disputes, and other charges.

The following table reflects the balances of significant items included in the charge for reorganization and restructuring for the year ended December 31, 1997:

Reduction in carrying value of certain assets	$47.7
Costs to exit unfavorable contracts	5.5
Legal expenses, vendor disputes and other charges	11.4
	$64.6

As of December 31, 1998, all amounts accrued have been paid.

g) Globesystem Atlantic Impairment

In the fourth quarter of 1997, the Corporation wrote down the inventory capacity it held for resale in the Globesystem Atlantic cable system to its net realizable value. A non-cash charge of $57.8 was recorded in 1997.

h) Optel Impairment

In 1997, the Corporation wrote down to its net realizable value its net investment, including a loan receivable, in Optel, a company involved with the sale of cable system capacity in Globesystem Atlantic, in which the Corporation owned a 20% equity interest. Accordingly, a non-cash charge of $15.9 was recorded in 1997.

6. Cumulative Effect of Change in Accounting Principle

Effective January 1, 1997, EXCEL changed its method of accounting for subscriber acquisition costs. Previously, EXCEL had deferred the portion of commissions paid to IRs that directly relates to the acquisition of long distance and paging subscribers. Beginning January 1, 1997, EXCEL began fully expensing subscriber acquisition costs in the period incurred in order to present its operating results in a manner more consistent with other telecommunications companies against which its results are now compared. EXCEL recognized a non-cash charge of $65.2, net of income taxes of $39.6, to reflect the change in accounting principle.

7. Discontinued Operations

In the third quarter of 1997, the Corporation adopted a plan to dispose of its Insurance Systems operations. On October 22, 1997, the Corporation sold all its shares in its Insurance Systems operations to CGI for a cash consideration of $14.4 and 5.3 million CGI Class A subordinate shares. These shares were subsequently split on a two-for-one basis.

The net income of the Insurance Systems operations for the years ended December 31, 1997 and 1996 has been reclassified under discontinued operations in the consolidated statements of operations.

Revenues from discontinued operations were $99.9 and $111.1 in 1997 and 1996, respectively.

8. Extraordinary Item

In 1996, TCI became subject to a regulation based on price caps instead of the previous rate-base/rate-of-return methodology. Consequently, the regulatory assets set up as a result of certain deferred tax benefits were charged to expense under the provisions of SFAS No. 101, "Regulated Enterprises – Accounting for the Discontinuation of Application of FASB Statement No. 71" ("SFAS No. 101") and recorded as an extraordinary item of $22.1 in the year ended December 31, 1996.

9. Income Taxes

The following table presents income (loss) from continuing operations before income taxes, minority interests, cumulative effect of change in accounting principle and extraordinary item for the entities incorporated in the following jurisdictions for the years ended December 31, 1998, 1997 and 1996:

	1998	1997	1996
Canada	$(97.8)	$ 82.3	$112.2
Foreign	110.6	143.6	229.9
	$ 12.8	$225.9	$342.1

The components of the provision for income taxes attributable to continuing operations for the years ended December 31, 1998, 1997 and 1996 are as follows:

	1998	1997	1996
Current			
Federal (Canada)	$ 44.7	$ 53.5	$ 39.9
Provincial	15.4	18.4	13.7
Foreign	14.6	60.7	60.3
Total current	74.7	132.6	113.9
Deferred			
Federal (Canada)	(64.7)	(8.6)	(16.8)
Provincial	(22.3)	(2.9)	(5.8)
Foreign	20.9	(5.1)	25.1
Total deferred	(66.1)	(16.6)	2.5
	$ 8.6	$116.0	$116.4

The tax effects of temporary differences which gave rise to the net deferred income tax asset (liability) at December 31, are as follows:

Deferred income tax asset	Current		Long-term	
	1998	1997	1998	1997
Property, plant and equipment	$ –	$ –	$ 30.4	$ –
Capital losses carryforward	–	–	28.9	88.1
Net operating losses carryforward	5.3	–	14.6	26.7
Other operating items	–	–	22.5	–
Investment tax credit and other	10.1	13.7	–	–
Accrued liabilities and other	5.9	65.4	31.8	–
Valuation allowance	–	–	(34.2)	(65.8)
Gross deferred income tax asset	21.3	79.1	94.0	49.0
Deferred income tax liability offset	–	(45.0)	(43.7)	(14.7)
Net deferred income tax asset	$21.3	$ 34.1	$ 50.3	$ 34.3

Deferred income tax liability	Current		Long-term	
	1998	1997	1998	1997
Property, plant and equipment	$ –	$ 11.0	$ 35.9	$ 80.8
Accounts receivable	–	19.7	–	–
Other	–	14.3	7.8	–
Gross deferred income tax liability	–	45.0	43.7	80.8
Deferred income tax asset offset	–	(45.0)	(43.7)	(14.7)
Net deferred income tax liability	$ –	$ –	$ –	$ 66.1

The valuation allowance, in 1998 and 1997, primarily represents tax benefits of net capital losses carryforward and other deferred income tax assets which may expire unutilized. During 1998, the valuation allowance decreased by $31.6, primarily as a result of the utilization of capital losses carryforward for which a valuation allowance had been recorded previously.

9. Income Taxes (continued)

As of December 31, 1998, cumulative undistributed earnings from foreign subsidiaries were primarily related to EXCEL. No provision for Canadian income taxes has been made since the Corporation considers the undistributed earnings to be permanently invested in the U.S.

As of December 31, 1998, the Corporation had net operating losses carryforward of $47.8. The net operating losses carryforward are limited to use in varying annual amounts through 2012. In addition, at December 31, 1998, the Corporation had net capital losses carryforward of $76.0. Of these net capital losses carryforward, $13.8 can be used through 2002 and the remaining $62.2 can be used indefinitely.

A reconciliation between taxes computed by applying the Canadian statutory federal income tax rate of 29.12% to pretax income and income taxes provided in the consolidated statements of operations is as follows:

	1998	1997	1996
Amounts computed at statutory rates	**$ 3.7**	$ 65.8	$ 95.8
Provincial income taxes	**1.3**	23.0	37.3
Merger and acquisition related costs	**3.3**	–	–
Valuation allowance	**(7.9)**	13.2	–
Amortization and write-down of intangibles	**15.3**	–	–
Gain on disposal of investments	**(11.1)**	–	–
Adoption of SFAS No. 101 – Change in regulatory practices	–	–	(21.8)
Foreign rate differential and other non-deductible charges	**4.0**	14.0	5.1
	$ 8.6	$116.0	$116.4

10. Investments

	1998	1997
Investments in Affiliates	**$218.5**	$241.0
Investments at Cost	**14.6**	137.2
	$233.1	$378.2

As of December 31, 1998, goodwill included in the investments in affiliates amounted to $3.5 ($8.5 as of December 31, 1997), net of accumulated amortization of $1.1 ($0.7 as of December 31, 1997). Dividends received from investments in affiliates amounted to $30.0 for the year ended December 31, 1998 ($30.7 for 1997).

a) Investments in Affiliates

i) **INTELSAT/INMARSAT**

Until 1998, TCI was the designated Canadian signatory to both the INMARSAT and the International Telecommunications Satellite Organization ("INTELSAT") operating agreements. Pursuant to an agreement dated October 31, 1996, the Corporation sold, in 1998, its interest in INMARSAT, and the Government of Canada reassigned its signatory status to the purchaser of such interest. Periodically, TCI's ownership in these organizations is adjusted to conform to its proportional use of the systems or such other level as it may elect, according to the terms of the respective operating agreements. The Corporation remains the Canadian signatory to INTELSAT.

ii) **1000 de La Gauchetière West Building Inc.**

The Corporation is the co-owner of its corporate office building. The Corporation's ownership interest at December 31, 1998 was 30%.

iii) **ORBCOMM Global, L.P.**

The Corporation and Orbital Sciences Corporation, a U.S. public corporation, have formed a joint venture called ORBCOMM Global, L.P. ("ORBCOMM") for the financing and operation of a digital satellite telecommunications system. The ORBCOMM™ system is designed to provide continuous low-cost coverage over most of the earth's surface for monitoring, tracking and messaging applications. The Corporation owns a 50% interest in ORBCOMM as a result of the indirect acquisition of an additional 15% interest in 1998 for $65.5.

10. Investments (continued)

iv) **Teleglobe Marine (U.S.) Inc.**

The Corporation participates in the ownership of five cable ships, with percentages varying from 25% to 45%, through its subsidiary Teleglobe Marine (U.S.) Inc. ("TMI") under limited partnership agreements with a subsidiary of Tyco International Ltd.

v) **Combined financial information related to investments in affiliates**

The summarized combined financial information for all investees accounted for under the equity method, as reported in their financial statements as of December 31, 1998 and 1997 and for the three years ending December 31, 1998, is as follows:

	December 31,	
	1998	1997
Current assets	**$ 290.2**	$ 613.3
Long-term assets	**3,539.2**	4,421.1
Current liabilities	**500.3**	678.9
Long-term liabilities	**1,219.2**	2,530.2

	Years ended December 31,		
	1998	1997	1996
Revenues	**$1,129.6**	$1,473.7	$1,414.5
Operating income	**371.4**	745.1	748.1
Income from continuing operations	**310.1**	481.8	518.0
Net income	**511.1**	474.5	488.8

b) Investments at Cost

i) **Optel**

Prior to May 1998, the Corporation held a 20% interest in Optel which was carried at cost. On May 15, 1998, the Corporation acquired all of the remaining shares outstanding of Optel for a cash consideration of $3.7. The purchase of the additional 80% has been accounted for under the purchase method of accounting. The consolidated results of operations for the year ended December 31, 1998 include Optel's financial results from May 15, 1998.

ii) **New Skies Satellites N.V.**

On November 30, 1998, INTELSAT transferred certain assets and liabilities to its newly formed subsidiary New Skies Satellites N.V. ("NSS"). On the same date INTELSAT also distributed 90% of its shares in NSS to its signatories. Following this transaction, the Corporation owns a 1.84% interest in NSS.

iii) **CGI**

Also included in "Investments at cost" as of December 31, 1997 were the CGI shares sold in January 1998 (see Note 5 d).

11. Property, Plant and Equipment

	1998	1997
Land	**$ 10.1**	$ 10.5
Telecommunications equipment	**479.3**	592.2
Buildings, plant and equipment	**127.1**	118.3
Cable systems	**677.0**	442.9
Computer software and equipment	**140.3**	92.0
Cable ships and submersible craft	**3.7**	2.3
Leasehold improvements and other	**19.1**	17.9
Construction in progress	**130.1**	39.9
Total	**1,586.7**	1,316.0
Less: Accumulated depreciation	**(696.8)**	(470.6)
Property, plant and equipment, net	**$ 889.9**	$ 845.4

Interest has been capitalized in accordance with SFAS No. 34, "Capitalization of Interest Cost". Total interest cost was $67.7 and $40.3 in 1998 and 1997, respectively. Of this amount, $2.4 and $0.5 have been capitalized as property, plant and equipment in 1998 and 1997, respectively.

12. Deferred Charges and Other

	1998	1997
Fiber-optic capacity	$ 8.6	$ 36.6
Long-term receivables	26.4	13.2
Franchise agreements	35.3	3.7
Prepaid pension asset	10.7	9.1
Long-term debt issuance costs	2.6	10.3
Other	7.2	1.8
	$ 90.8	$ 74.7

13. Short-term Credit Facilities

a) Operating Line of Credit

In the course of its operations, TCI can avail itself of a renewable term credit facility for a maximum of CDN$20.0 (US$13.0, at December 31, 1998). This unsecured facility is repayable at any time and bears interest at rates based on either the rate of bankers' acceptances plus 0.25% or bank prime rate for amounts drawn in Canadian dollars, or on LIBOR (London Interbank Offered Rate) plus 0.25% or the U.S. base rate for amounts drawn in U.S. dollars. TCI can also issue letters of credit at a cost of 0.25%.

The operating line of credit is for a one-year period. Six months prior to maturity, the lenders may agree to extend the maturity date for an additional six-month period.

b) Promissory Notes

TCI is authorized to issue up to CDN$150.0 (US$97.6, at December 31, 1998) of promissory notes (commercial paper) which are supported by a revolving credit facility of up to CDN$100.0 (US$65.1, at December 31, 1998). This unsecured facility is repayable at any time and bears interest at rates based on either the rate of bankers' acceptances plus 0.25% or bank prime rate for amounts drawn in Canadian dollars, or on LIBOR plus 0.25% or the U.S. base rate for amounts drawn in U.S. dollars.

At December 31, 1998, TCI has $65.1 of promissory notes outstanding.

The revolving credit facility is for a one-year period. Six months prior to maturity, the lenders may agree to extend the maturity date for an additional six-month period.

14. Long-term Debt

	1998	1997
Teleglobe Canada Inc.		
Debentures (CDN$100.0), 8.00%, maturing in 2026	$ 65.1	$ 70.0
Debentures (CDN$125.0), 8.35%, maturing in 2003	81.3	87.5
Debentures (CDN$125.0), 8.85%, maturing in 2002	81.3	87.5
	227.7	245.0
Teleglobe Marine (U.S.) Inc.		
Senior notes, 7.05%, maturing in 2013	53.6	56.3
Subordinated notes, 7.12%, maturing in 2004	18.0	20.5
	71.6	76.8
EXCEL		
Credit facility, effective rate of 6.18%, maturing in 2002	407.0	475.0
Other	2.1	3.0
	409.1	478.0
Total long-term debt	708.4	799.8
Less: Current portion	6.3	5.8
	$702.1	$794.0

14. Long-term Debt (continued)

a) Teleglobe Inc. – Credit Facility

The Corporation has a credit facility of CDN$365.0 (US$237.4, at December 31, 1998) with a syndicate of Canadian financial institutions that matures in 2002. The facility is unsecured and is divided in two tranches:

- A revolving-term credit facility of up to CDN$345.0 (US$224.4, at December 31, 1998) made available for general corporate purposes;
- A revolving-term credit facility of up to CDN$20.0 (US$13.0, at December 31, 1998) made available to the Corporation for general working capital purposes.

Interest rates on this facility are based on bankers' acceptances plus 0.22% or bank prime rate for drawdowns in Canadian dollars, or on LIBOR plus 0.22% or U.S. base rate for drawdowns in U.S. dollars. The Corporation can also issue letters of credit at a cost of 0.22%.

At December 31, 1998 and 1997, this credit facility was unused.

b) Teleglobe Canada Inc.

i) Term Credit Facility

TCI has a term credit facility of CDN$49.0 (US$31.9, at December 31, 1998) with Canadian financial institutions. This non-revolving reducing-term facility was repayable in quarterly installments of CDN$0.5 (US$0.3, at December 31, 1998) until expiration in 2001. In August 1997, the credit facility was converted to a revolving reducing-term facility by an amendment to the original credit agreement. The credit facility bears interest at rates based either on bankers' acceptances plus 1.375%, bank prime rate plus 0.50% or the lenders' cost of loans plus 1.375%. The facility is secured by TCI's shares in 1000 de La Gauchetière West Building Inc. for a principal amount of CDN$59.0 (US$38.4, at December 31, 1998) plus interest on such amount, compounded annually at the rate of 20% per annum. As at December 31, 1998 and 1997, this term credit facility was unused.

ii) Debentures

The 8.00%, 8.35% and 8.85% debentures issued in 1996, 1993 and 1992, respectively are unsecured and redeemable at any time by TCI. They were each issued under a trust indenture providing for the creation of a debenture in the principal amount of CDN$300.0 (US$195.1, at December 31, 1998).

c) Teleglobe Marine (U.S.) Inc. – Senior and Subordinated Notes

Teleglobe Marine (U.S.) Inc. senior and subordinated notes, 7.05% and 7.12%, are secured by an interest in five cable ships which are owned through limited partnerships with a subsidiary of Tyco International Ltd.

d) EXCEL

In 1997, EXCEL entered into a credit facility for borrowings up to $1,000.0. Borrowings under the credit facility are available for general corporate purposes including acquisitions and are subject to various financial covenants. The facility is secured by the common shares of various subsidiaries of EXCEL. The interest rate on the credit facility is based on EXCEL's prevailing debt ratio and ranges on a Eurodollar (LIBOR) option from a spread of 0.625% to 1.75%, and on a Base (Prime) Rate option from a spread of 0% to 0.50%. Total borrowings availability under the credit facility reduces to $800.0 on September 30, 2000, and to $500.0 on September 30, 2001, and the credit facility expires on September 30, 2002.

e) Long-term Debt Maturities

1999	$ 6.3
2000	6.8
2001	6.7
2002	494.1
2003	87.5
Thereafter	107.0
	$708.4

A portion of long-term debt is subject to interest rate swaps as described in Note 21 – Financial Instruments.

The Corporation is required to and did maintain certain financial ratios under its various loan agreements, both on a consolidated and unconsolidated basis.

15. Redeemable Preferred Shares

The Corporation is authorized to issue an unlimited number of second series preferred shares, without nominal or par value. The second series preferred shares entitled shareholders to fixed cumulative dividends at a rate of 8% per annum. The shares were non-voting and convertible at any time based on a conversion price of CDN$10.75 (US$6.99, at December 31, 1998) per common share. They were retractable on May 1, 1997 and redeemable from May 2, 1997 at a price of CDN$25.00 (US$16.26, at December 31, 1998) per share. During 1997, all such outstanding shares were converted or redeemed. When issued and outstanding, the second series preferred shares were classified as debt.

16. Share Capital

The Corporation is authorized to issue an unlimited number of common shares, Class A non-voting shares and preferred shares, all without nominal or par value. A two-for-one stock split was effected on the common shares on June 15, 1998. Accordingly, all information relating to common shares for the current and prior periods has been restated to reflect the common shares stock split retroactively.

The rights attached to the Class A non-voting shares are identical to those of the common shares except for the fact that they are non-voting. At December 31, 1998 and 1997, there were no Class A non-voting shares outstanding.

The first series preferred shares are non-voting and convertible at any time, at the option of the holder, into an equal number of common shares. No dividend may be declared on the common shares and Class A non-voting shares unless an equal and rateable dividend has been declared on the first series preferred shares. The holders of first series preferred shares are entitled to receive capital and any dividends declared thereon before holders of common shares and Class A non-voting shares in the event of liquidation, but otherwise the shares rank equally with the common shares. The shares were deemed to be equivalent to common shares for purposes of calculating earnings per share. A two-for-one stock split was effected on the first series preferred shares on June 15, 1998. Accordingly, all information relating to the first series preferred shares for the current and prior periods has been restated to reflect the first series preferred shares stock split retroactively.

The third series preferred shares entitle shareholders to fixed cumulative dividends at a rate of 5.4% per annum. The shares are non-voting and are, at the Corporation's option on or after April 1, 2001, redeemable for cash at CDN$25.00 (US$16.26, at December 31, 1998) per share or convertible into common shares of the Corporation determined by dividing CDN$25.00 (US$16.26 , at December 31, 1998) by the greater of CDN$3.00 (US$1.95, at December 31, 1998) and 95% of the weighted average trading price of the common shares at the time of conversion. On or after May 1, 2001, subject to the preemptive right of the Corporation to redeem for cash or to find substitute purchasers at CDN$25.00 (US$16.26 at December 31, 1998) per share, the shares are convertible at the option of the holder into common shares of the Corporation based on the same formula used for redemption. At any time, the Corporation may offer shareholders the right to convert into a further series of preferred shares on a one-for-one basis.

17. Basic and Diluted Earnings per Share

The following table presents a reconciliation of Basic EPS to Diluted EPS as required by SFAS No. 128:

	For the years ended December 31,								
	1998			1997			1996		
	Income	Shares (millions)	EPS	Income	Shares (millions)	EPS	Income	Shares (millions)	EPS
Basic EPS:									
Income from continuing operations before cumulative effect of change in accounting principle and extraordinary item	**$14.9**	**247.4**		$116.7	226.1		$229.5	209.3	
Dividends on preferred shares (including related taxes)	**(4.7)**	**–**		(6.1)	–		(9.8)	–	
Income from continuing operations before cumulative effect of change in accounting principle and extraordinary item available to common shareholders	**10.2**	**247.4**	**$0.04**	110.6	226.1	$0.49	219.7	209.3	$1.05
Diluted EPS:									
Effect of Dilutive Securities:									
Impact of exercise of share options under treasury stock method	**–**	**5.6**		–	2.9		–	2.7	
Conversion of preferred shares	**–**	**–**		1.1	4.2		9.8	20.9	
Income from continuing operations before cumulative effect of change in accounting principle and extraordinary item available to common shareholders and assumed exercises	**$10.2**	**253.0**	**$0.04**	$111.7	233.2	$0.48	$229.5	232.9	$0.99

Earnings per share for the current and prior years have been adjusted to give effect to the two-for-one stock split effected June 15, 1998.

In 1996, the weighted average shares outstanding excluded the number of employee stock ownership plan shares that had not been released to employees at the end of the period.

The computation of diluted earnings per share excludes the effect of 2,746,248 and 5,753,500 incremental common shares attributable to the potential conversion of third series preferred shares, for the years ended December 31, 1998 and 1997, respectively, because their effect was antidilutive.

18. Share Option and Employee Stock Purchase Plans

Share-Based Compensation

The Corporation has various share option plans which permit the issuance of either incentive share options or non-statutory options to selected employees, directors, and consultants to the Corporation and its affiliates. The plans reserve 15,035,018 shares of common stock for grants. These options vest over a three to seven-year period and expire seven to ten years from the date of grant. As of December 31, 1998, 782,587 shares remained available for future option grants and 6,054,292 outstanding options are vested or exercisable.

Effective January 1, 1995, EXCEL amended one of its 401(k) plans to incorporate an Employee Stock Ownership Plan ("ESOP") for substantially all employees of EXCEL. On November 1, 1995, the ESOP borrowed $6.0 from the Corporation to purchase 2,655,000 shares of common stock. The shares were held in a trust and were allocated to employees' accounts in the ESOP during the same calendar year in which debt repayments were made. The Corporation recognized compensation expense related to the ESOP of $6.3 for the year ended December 31, 1996. During 1995, 1,510,695 shares were released and allocated to ESOP participants. The remaining 1,144,305 shares were allocated to ESOP participants in 1996.

As permitted under SFAS No. 123, the Corporation has elected to continue to measure its stock-based awards using the intrinsic value method prescribed by APB No. 25. The application of APB No. 25 did not result in the recognition of compensation expense. The table below presents pro forma net income and EPS had compensation cost for the Corporation's share-based employee compensation plans been determined under the provisions of SFAS No. 123.

	1998	1997	1996
Net income	$ 7.5	$108.3	$210.1
Basic EPS	0.01	0.45	0.96
Diluted EPS	0.01	0.44	0.90

The fair value of the options was estimated at the grant date using the Black-Scholes option pricing model with the following weighted-average assumptions for 1998, 1997 and 1996: risk-free interest rate between 4.3% and 5.75%; dividend yield between 0% and 2%; volatility factor of the expected market price of the Corporation's common shares between 25% and 44%; and a weighted-average expected life of the options between 5 and 7 years.

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option pricing models require the input of highly subjective assumptions including the expected stock price volatility. Because the Corporation's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

The SFAS No. 123 method of accounting does not apply to options granted prior to January 1, 1995, and accordingly, the resulting pro forma compensation cost may not be representative of the cost to be expected in future years.

A summary of the status of the Corporation's stock option plans as of December 31, 1998, 1997 and 1996 and changes during the years then ended is presented in the table below:

	1998		1997		1996	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, beginning of year	12,222,751	$11.37	7,211,010	$ 6.97	6,119,467	$ 5.33
Granted	5,316,710	25.97	7,063,575	14.29	1,835,894	12.00
Exercised	(2,503,769)	7.37	(1,365,569)	4.75	(389,178)	5.36
Expired	(783,261)	9.22	(686,265)	8.46	(355,173)	6.50
Outstanding, end of year	14,252,431	17.63	12,222,751	11.37	7,211,010	6.97
Exercisable, end of year	6,054,292	$11.26	2,842,584	$ 5.76	665,932	$ 5.46
Weighted average fair value of options granted	$ 10.39		$ 8.40		$ 5.21	

18. Share Option and Employee Stock Purchase Plans (continued)

The following table summarizes information about share options outstanding and exercisable at December 31, 1998:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 0.50 - \$ 6.99	3,286,688	6.16	\$ 5.39	3,160,007	\$ 5.33
\$ 7.00 - \$13.99	2,490,112	5.99	11.38	1,104,351	11.35
\$14.00 - \$19.99	2,068,515	7.03	16.72	732,695	16.23
\$20.00 - \$26.99	3,008,520	8.95	24.39	982,014	25.32
\$27.00 - \$29.61	3,398,596	9.89	28.62	75,225	27.12
\$ 0.50 - \$29.61	14,252,431	7.74	\$17.63	6,054,292	\$11.26

19. Pension Plans

The Corporation and certain of its subsidiaries have contributory and non-contributory defined benefit plans which provide pensions based on length of service and average earnings. Additionally, under a program discontinued in April 1995, the retiring employees of TCI are paid a benefit based on unused sick leave and length of service.

In addition to these pension plans, the Corporation and certain of its subsidiaries maintain capital accumulation plans qualifying under the provisions of Section 401(k) of the Internal Revenue Code enabling qualified employees to contribute on a tax deferred basis.

The changes in benefit obligations and in the plan assets for these various defined benefit plans for the years ended December 31, 1998 and 1997 are as follows:

	1998	1997
Projected benefit obligation, beginning of year	\$ 76.2	\$ 75.6
Service cost	2.7	2.7
Interest cost	5.7	6.1
Actuarial gain	–	(0.7)
Benefits paid	(5.1)	(4.3)
Effect of foreign exchange rate changes	(5.9)	(3.2)
Projected benefit obligation, end of year	\$ 73.6	\$ 76.2
Fair value of plan assets, beginning of year	\$111.1	\$105.2
Actual return on plan assets	11.5	12.1
Employer contribution	1.3	2.7
Benefits paid	(5.1)	(4.3)
Effect of foreign exchange rate changes	(8.2)	(4.6)
Fair value of plan assets, end of year	\$110.6	\$111.1
Funded status	\$ 37.0	\$ 34.9
Unrecognized net transition obligation	1.7	2.8
Unrecognized net asset from experience differences	(28.0)	(28.6)
Prepaid pension asset	\$ 10.7	\$ 9.1

The assumptions used in accounting for the pension benefit plans and the other benefit plans as of December 31, 1998 and 1997 were:

	1998	1997
Discount rate	7.75%	7.75%
Expected long-term return on plan assets	8.25%	7.75%
Rate of compensation increase	4.00 to 6.50%	4.00 to 6.50%

19. Pension Plans (continued)

The annual benefit cost (gain) for the years ending December 31, 1998, 1997 and 1996 included the following components:

	1998	1997	1996
Service cost	$ 2.7	$ 2.7	$ 2.7
Interest cost	5.7	6.1	5.8
Expected long-term return on plan assets	(8.1)	(7.7)	(7.1)
Amortization of unrecognized net obligation (asset)	(1.4)	1.7	0.7
Net periodic benefit cost (gain)	$ (1.1)	$ 2.8	$ 2.1

20. Related-party Transactions

The Corporation concluded the following transactions with related parties:

Party	Nature of transaction with the related party	Classification in the Corporation's consolidated financial statements	1998	1997	1996
BCE and its affiliates	Equipment leasing, acquisition of services, financing fees and other	Operating expenses, property, plant and equipment, and other current assets	$12.3	$ 9.6	$ 8.2
Affiliates	Sales of equipment	Property, plant and equipment	(1.0)	(3.0)	(2.3)
	Sales of services	Operating expenses	(6.1)	(6.6)	(4.8)
	Acquisition of services	Operating expenses	23.8	18.0	15.4
	Rental of head office premises	Operating expenses	7.2	8.1	8.0
	Management services	Operating expenses	0.2	0.8	0.4
	Sales of services	Telecommunication revenues from related parties	0.7	0.6	0.8
	Acquisition of services	Telecommunication revenues from related parties	(0.5)	(1.2)	(0.9)
Stentor Canadian Network Management	Sales of services	Telecommunication revenues from related parties	348.4	402.5	413.1
	Acquisition of services	Operating expenses	33.3	52.1	61.0
	Acquisition of services	Deferred charges and other	12.9	–	–
	Lease of domestic fiber-optic capacity	Deferred charges and other	6.0	10.7	14.6
Stentor Resource Centre Inc.	Lease of domestic fiber-optic capacity	Deferred charges and other	–	21.9	–

20. Related-party Transactions (continued)

Amounts owed to or receivable from related parties as of December 31, were as follows:

Party	Classification in the Corporation's consolidated financial statements	1998	1997
BCE and its affiliates	Accounts payable to related parties	$ 0.8	$ 0.6
Affiliates	Accounts payable to related parties	5.6	4.0
Stentor Canadian Network Management	Accounts receivable from related parties	54.7	108.6
	Accounts payable to related parties	–	5.2
Stentor Resource Centre Inc.	Accounts payable to related parties	–	21.3

a) BCE and its affiliates

Bell Canada, Newtel Enterprises Limited, Northwestel Inc., Télébec Ltée and Northern Telephone Limited are subsidiaries of BCE and provide, either directly or through subsidiaries, telephone services in Ontario, Quebec, Newfoundland, British Columbia, the Yukon and the Northwest Territories, respectively. New Brunswick Telephone Company Limited, Maritime Tel and Tel Limited and Island Telephone Company Limited are associated with BCE and provide telephone services in New Brunswick, Nova Scotia and Prince Edward Island, respectively.

Five of the companies noted above have entered into an agreement with TCI for the provision of telecommunication services. A significant portion of income relating to foreign traffic originating in Canada is generated by such companies under the terms of such agreements. Moreover, TCI compensates such companies for international traffic carried in Canada.

TCI has transactions with a telecommunications company in the BCE Group, Bell Canada, either directly or indirectly through Stentor. Moreover, TCI transacts with a manufacturer in the BCE Group, Northern Telecom Canada Limited.

b) Affiliates

TCI has reached various agreements with BCE regarding the operation of an office building. TCI uses the satellite space segments of the INTELSAT joint venture.

21. Financial Instruments

The Corporation operates internationally and is therefore exposed to market risks related to foreign currency fluctuations. To reduce these risks, it uses derivative financial instruments such as forward exchange contracts, foreign currency swap contracts and foreign currency denominated options, principally in US dollars and in special drawing rights. To manage risks related to interest rates, the Corporation uses interest rate swaps. It does not hold or issue derivative financial instruments for commercial or speculative purposes. Derivative financial instruments are subject to standard credit terms and conditions, financial controls, management and risk monitoring procedures.

a) Credit Risks

The Corporation is exposed to credit risks in the event where third parties fail to perform their obligations under derivative financial instruments. The Corporation does not have any additional guarantees or security regarding derivative financial instruments with a credit risk. However, to reduce these risks, the Corporation diversifies its exchange contracts and interest rate swaps by dealing with financial institutions having a credit rating at least equal to its own. Accordingly, management does not foresee that the parties with which it transacts financial instruments will fail to fulfill their obligations given their high creditworthiness.

b) Foreign Currency Risk

The Corporation uses derivative financial instruments to hedge its revenues, expenses and monetary items recorded in foreign currencies when the probability of their realization is high and their major expected characteristics and execution conditions are identified. Such revenues, expenses and monetary items are recognized within one year. The duration of derivative financial instruments is less than one year. Unrecognized gains or losses on these contracts are determined using market rates prevailing at the balance sheet date, which are obtained from the Corporation's financial institutions, and are as follows:

	1998		1997	
	Gains	Losses	Gains	Losses
Recognition within one year	$ –	$ –	$ –	$ 1.2

21. Financial Instruments (continued)

c) Interest Rate Risk

The Corporation concluded interest rate swaps for a par value of CDN$100.0 (US$65.1 at December 31, 1998) with several financial institutions for periods ending in March 2000 (CDN$50.0 – US$32.5 at December 31, 1998) and February 2002 (CDN$50.0 – US$32.5 at December 31, 1998). In return, it will, on a semi-annual basis, receive an average fixed interest rate of 5.365% and pay interest based on a three-month bankers' acceptance rate. As of December 31, 1998, the average bankers' acceptance rate relating to the Corporation's swaps was 5.072% (4.283% in 1997).

d) Fair Value of Financial Instruments

The fair value of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and short-term credit facilities is comparable to the carrying amount thereof given as they will mature shortly.

The fair value of long-term debt is determined by discounting future cash flows using rates representing those which the Corporation could currently obtain, at market rates, for loans with similar terms, conditions and maturities.

The fair value of various derivative financial instruments is determined based on market rates prevailing at the balance sheet date obtained from the Corporation's financial institutions for similar financial instruments.

As at December 31, the carrying amount of all financial instruments was similar to their fair value, with the following exceptions:

	1998		1997	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial liability:				
Long-term debt	**$708.4**	**$750.1**	$799.8	$838.0
Off balance sheet instruments:				
Forward exchange contracts	**–**	**–**	50.1	49.7
Foreign currency swap contracts	**–**	**–**	–	0.2
Interest rate swap contracts	**–**	**0.6**	–	0.3

22. Commitments and Contingencies

a) Contracts for Services and Operating Leases

The Corporation has the following commitments under contracts for services and operating leases for property, plant and equipment:

1999	$196.8
2000	74.4
2001	55.6
2002	48.6
2003	44.3
Thereafter	129.2
	$548.9

b) Transmission Line Leases

The Corporation, through its EXCEL subsidiary, leases transmission lines from a variety of facilities-based and resale long distance carriers. The Corporation's contracts with these entities typically have terms ranging from 12 to 60 months. The Corporation supplements its leased "on-network" capacity with "off-net" services from a variety of resale and facilities-based long distance carriers.

c) Interconnection Agreement with Stentor

Effective January 1, 1998, the Corporation, Stentor Resource Centre Inc. and each of the members of the Stentor alliance entered into new agreements for the continuing supply of services between the parties. The new agreements replaced or modified previously existing agreements. The agreed-upon terms include commitments by Stentor for the routing of certain proportions of Stentor's international traffic over the Corporation's switched network for the years 1998 to 2000, subject to the Corporation offering Stentor competitive pricing conditions. The parties also agreed on terms for the termination by Stentor in Canada of certain proportions of the Corporation's incoming international traffic for the years 1998 to 2000, subject to minimum price reductions by Stentor in 1998 and other competitive pricing conditions.

22. Commitments and Contingencies (continued)

In addition, the parties entered into a new agreement with respect to the *Canada Direct*™ trademark and service, which will expire in 2002, and modified the terms of Stentor's supply to the Corporation of leased Canadian fiber ring facilities which form part of the Corporation's network. This agreement will expire in 2005. The main interconnection agreement is subject to the approval of the CRTC.

In September 1998, the eleven major telephone companies, members of the Stentor Alliance, announced a restructuring of Stentor effective January 1, 1999. Such restructuring has no material impact on the new agreements which were signed individually by each member company.

d) Carrier Agreements

The Corporation, through its EXCEL operations, currently has agreements with Frontier, IXC Long Distance Inc. and MCI WorldCom to provide switching services and network transmission of its long distance traffic. The agreements with IXC Long Distance Inc. and MCI WorldCom each contain minimum usage commitments, while the agreement with Frontier provides for Frontier to be the exclusive carrier for certain calling card calls and personal 800 service. The Corporation is currently meeting all minimum commitments under these contracts.

e) Network and Telecommunications Capacity Exchanges

From time to time, the Corporation enters into agreements to acquire telecommunication capacity rights from unrelated third parties in exchange for telecommunications capacity rights with regard to the Corporation's network. Certain exchange agreements provide for liquidated damages to be carried against the Corporation in the event the Corporation fails to deliver the telecommunications capacity in accordance with the agreed-upon timetables. The Corporation is currently meeting its obligations as required.

f) Guarantee

Teleglobe Mobile Partners, an indirect subsidiary of the Corporation, has guaranteed the senior notes of $170.0 of its joint venture, ORBCOMM, on a joint and several basis with the other venturer.

g) Other

Contractual commitments outstanding as of December 31, 1998 which relate to construction projects amounted to approximately $55.4 ($22.0 in 1997).

The Corporation leases certain office equipment, office space and circuit capacity under operating leases. Total expenses for the years ended December 31, 1998, 1997 and 1996 were approximately $60.2, $72.4, and $83.1, respectively.

h) Contingencies

i) Litigation

On August 30, 1996, AT&T filed suit in the United States District Court for the District of Delaware against EXCEL and its subsidiaries, EXCEL Communications Marketing Inc. and EXCEL Telecommunications, Inc., alleging past and continued infringement of a single patent without specifying the amount of damages. The court granted summary judgement in favor of EXCEL on March 27, 1998. The court held that the patent is invalid because it relates to unpatentable subject matter under U.S. patent laws. On July 7, 1998 AT&T filed an appeal seeking to overturn the ruling. The oral argument on the appeal occurred on January 6, 1999. As of the date of the auditors' report, no ruling has been made by the Court of Appeals. Based upon the information available, the Corporation does not believe that these claims will have a material adverse effect on its results of operations or financial position; however, should an unfavorable outcome result in this matter, it could have a material adverse effect upon the Corporation's results of operations or financial position.

Various other lawsuits and claims are pending by and against the Corporation. It is the opinion of management and supported by counsel that final determination of these claims will not have a material adverse effect on the financial position or results of the Corporation.

ii) Other

Various governmental agencies monitor direct selling activities, and EXCEL has occasionally been requested to supply information regarding its marketing plan to certain of such agencies. The Corporation believes that its network marketing system is in substantial compliance with laws and regulations of each state relating to direct selling activities.

23. Segment Information

Effective for the year ended December 31, 1998, the Corporation adopted SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information" ("SFAS No. 131"). SFAS No. 131 establishes standards for reporting financial information about operating segments in annual financial statements and requires reporting of selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas and major customers.

The Corporation manages its operations based on four strategic business units: TCC, EXCEL, Teleglobe World Mobility ("TWM") and Teleglobe Enterprises ("TE"). These units are segregated based on the different products and services that they provide. TCC provides on a worldwide basis international services, mainly telephone and data telecommunications and other services such as Internet connectivity, leased circuits as well as broadcast services. Revenues from Stentor are recorded in TCC. EXCEL provides mainly long-distance telecommunication services to both residential and commercial customers in the U.S. TWM includes the investment of the Corporation in the ORBCOMM digital satellite telecommunications system, which is accounted for under the equity method. TE includes primarily the participation of the Corporation in the ownership of five cable ships and Look Communications Inc., both accounted for under the equity method. The accounting policies for these segments are the same as those followed by the Corporation as a whole (see Note 3). All intersegment transactions are eliminated upon consolidation.

The following tables present information about reported segment profits and assets as well as information by geographic area:

1998	TCC	EXCEL	TWM	TE	Unallocated amounts	Total
Revenues						
Telephony – Canadian outbound	$ 447.7	$ –	$ –	$ –	$ –	$ 447.7
Telephony – International market						
Canadian inbound	183.6	–	–	–	–	183.6
Global	665.3	–	–	–	–	665.3
Telephony U.S. – presubscribed and casual calling	–	1,511.7	–	–	–	1,511.7
Telephony U.S. – commercial	–	184.3	–	–	–	184.3
Telephony U.S. – wholesale	–	114.2	–	–	–	114.2
Transmission and data	200.4	–	–	–	–	200.4
Marketing services	–	70.9	–	–	–	70.9
Other	–	–	10.7	0.1	–	10.8
Total	1,497.0	1,881.1	10.7	0.1	–	3,388.9
Interest expense	21.3	37.1	–	5.2	1.7	65.3
Interest and other income	4.8	(3.8)	–	1.0	0.2	2.2
Depreciation and amortization	79.7	52.3	–	0.1	0.3	132.4
Other operating items	252.6	41.5	(15.4)	3.0	(24.6)	257.1
Equity in income (losses) of affiliated companies	11.0	–	(31.7)	5.7	1.8	(13.2)
Segment profit (loss)	(40.9)	62.0	(19.9)	(3.4)	15.0	12.8
Income taxes	–	–	–	–	8.6	8.6
Minority interests	–	–	10.7	–	–	10.7
Net income (loss)	(40.9)	62.0	(9.2)	(3.4)	6.4	14.9
Segment assets	1,079.3	1,673.4	261.4	76.0	52.5	3,142.6
Investments in affiliated companies	35.7	–	58.5	59.9	64.4	218.5
Capital expenditures, including intangibles	283.8	151.7	53.6	–	–	489.1

23. Segment Information (continued)

1997	TCC	EXCEL	TWM	TE	Unallocated amounts	Total
Revenues						
Telephony – Canadian outbound	$ 534.3	$ –	$ –	$ –	$ –	$ 534.3
Telephony – International market						
Canadian inbound	238.4	–	–	–	–	238.4
Global	560.5	–	–	–	–	560.5
Telephony U.S. – presubscribed and casual calling	–	1,283.3	–	–	–	1,283.3
Telephony U.S. – commercial	–	26.0	–	–	–	26.0
Telephony U.S. – wholesale	–	23.7	–	–	–	23.7
Transmission and data	126.3	–	–	–	–	126.3
Marketing services	–	121.3	–	–	–	121.3
Other	–	–	0.1	0.3	–	0.4
Total	1,459.5	1,454.3	0.1	0.3	–	2,914.2
Interest expense	25.3	8.5	–	5.6	0.4	39.8
Interest and other income (expense)	2.9	7.3	(3.3)	1.7	7.0	15.6
Depreciation and amortization	77.8	23.7	–	0.4	0.4	102.3
Other operating items	73.7	64.6	–	–	–	138.3
Equity in income (losses) of affiliated companies	6.0	–	(11.7)	12.1	1.4	7.8
Segment profit (loss)	100.9	143.6	(21.9)	5.6	(2.3)	225.9
Income taxes	–	–	–	–	116.0	116.0
Minority interests	–	–	6.8	–	–	6.8
Cumulative effect of change in accounting principle, net	–	(65.2)	–	–	–	(65.2)
Loss from discontinued operations, net	–	–	–	–	5.4	5.4
Gain on disposal of discontinued operations, net	–	–	–	–	65.2	65.2
Net income (loss)	100.9	78.4	(15.1)	5.6	(58.5)	111.3
Segment assets	1,198.9	1,637.0	101.7	71.3	261.3	3,270.2
Investments in affiliated companies	38.4	–	85.9	56.7	60.0	241.0
Capital expenditures, including intangibles	96.0	970.3	1.2	–	0.1	1,067.6

23. Segment Information (continued)

1996	TCC	EXCEL	TWM	TE	Unallocated amounts	Total
Revenues						
Telephony – Canadian outbound	$ 510.0	$ –	$ –	$ –	$ –	$ 510.0
Telephony – International market						
Canadian inbound	265.1	–	–	–	–	265.1
Global	303.7	–	–	–	–	303.7
Telephony U.S. – presubscribed	–	1,090.6	–	–	–	1,090.6
Transmission and data	38.0	–	–	–	–	38.0
Marketing services	–	260.7	–	–	–	260.7
Other	–	–	–	1.5	–	1.5
Total	1,116.8	1,351.3	–	1.5	–	2,469.6
Interest expense	23.8	0.3	–	5.9	0.8	30.8
Interest and other income	6.9	6.4	2.6	0.1	2.7	18.7
Depreciation and amortization	104.6	6.9	–	0.8	0.3	112.6
Equity in income (losses) of affiliated companies	4.8	6.2	(8.0)	14.6	(1.5)	16.1
Segment profit (loss)	122.3	229.9	(9.8)	7.3	(7.6)	342.1
Income taxes	–	–	–	–	116.4	116.4
Minority interests	–	–	3.8	–	–	3.8
Income from discontinued operations, net	–	–	–	–	3.6	3.6
Extraordinary item	(22.1)	–	–	–	–	(22.1)
Net income (loss)	100.2	229.9	(6.0)	7.3	(120.4)	211.0
Segment assets	1,129.2	579.2	82.3	74.4	220.9	2,086.0
Investments in affiliated companies	38.8	–	98.9	61.4	64.3	263.4
Capital expenditures, including intangibles	43.4	75.5	–	1.2	0.1	120.2

Geographic information	Canada	United States	Other	Total
1998				
Revenues	**$471.4**	**$2,156.4**	**$ 761.1**	**$3,388.9**
Property, plant and equipment	**241.3**	**560.2**	**88.4**	**889.9**
Intangibles	**46.4**	**970.0**	**–**	**1,016.4**
1997				
Revenues	491.7	1,715.2	707.3	2,914.2
Property, plant and equipment	470.9	342.3	32.2	845.4
Intangibles	69.3	943.7	–	1,013.0
1996				
Revenues	523.7	1,393.0	552.9	2,469.6
Property, plant and equipment	504.8	92.7	2.5	600.0
Intangibles	79.5	30.8	–	110.3

Revenues are attributed to different countries based on the point of origination of the telecommunications traffic. The reportable segments have changed and the corresponding items for prior years have been reclassified.

Quarterly Results of Operations (Unaudited)

The following table includes summarized quarterly financial data for each of the four quarters of 1998 and 1997. This quarterly information is unaudited, has been prepared on the same basis as the annual consolidated financial statements, and, in the opinion of the Corporation's management, reflects all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the information for the periods presented. Operating results for any quarter are not necessarily indicative of results for any future period.

1998

(In millions of U.S. dollars, except share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenues	$ 860.2	$ 882.1	$ 837.0	$ 809.6
Total operating expenses[1]	725.6	767.3	702.1	1,104.8
Operating income (loss)	134.6	114.8	134.9	(295.2)
Income (loss) from continuing operations before income taxes, minority interests and cumulative effect of change in accounting principle	121.9	96.0	114.3	(319.4)
Provision for income taxes	46.7	42.8	51.1	(132.0)
Minority interests	1.9	2.9	2.9	3.0
Cumulative effect of change in accounting principle, net	–	–	–	–
Income (loss) from continuing operations	77.1	56.1	66.1	(184.4)
Income (loss) from discontinued operations, net	–	–	–	–
Gain on disposal of discontinued operations, net	–	–	–	–
Net income (loss)	77.1	56.1	66.1	(184.4)
Preferred dividends	(1.2)	(1.1)	(1.1)	(1.1)
Net income (loss) to common shareholders	75.9	55.0	65.0	(185.5)
Basic earnings per share				
Continuing operations before cumulative effect of change in accounting principle	$ 0.31	$ 0.22	$ 0.26	$ (0.74)
Cumulative effect of change in accounting principle, net	–	–	–	–
Discontinued operations, net	–	–	–	–
Net income (loss) to common shareholders	0.31	0.22	0.26	(0.74)
Basic weighted average common shares	246,723,193	246,264,353	246,504,854	249,988,024
Diluted earnings per share				
Continuing operations before cumulative effect of change in accounting principle	$ 0.30	$ 0.22	$ 0.26	$ (0.74)
Cumulative effect of change in accounting principle, net	–	–	–	–
Discontinued operations, net	–	–	–	–
Net income (loss) to common shareholders	0.30	0.22	0.26	(0.74)
Diluted weighted average common shares	255,746,115	251,041,741	251,160,824	249,988,024
Dividends per common share	$ 0.03	$ 0.03	$ 0.03	$ 0.04

Quarterly Results of Operations (Unaudited) (continued)

1997

(In millions of U.S. dollars, except share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenues	$ 638.1	$ 686.6	$ 696.3	$ 893.2
Total operating expenses[1]	553.4	584.2	595.5	938.8
Operating income (loss)	84.7	102.4	100.8	(45.6)
Income (loss) from continuing operations before income taxes, minority interests and cumulative effect of change in accounting principle	83.8	102.2	102.3	(62.4)
Provision for income taxes	32.2	41.0	43.0	(0.2)
Minority interests	1.0	1.3	1.6	2.9
Cumulative effect of change in accounting principle, net	65.2	–	–	–
Income (loss) from continuing operations	(12.6)	62.5	60.9	(59.3)
Income (loss) from discontinued operations, net	–	2.6	–	(8.0)
Gain on disposal of discontinued operations, net	–	–	–	65.2
Net income (loss)	(12.6)	65.1	60.9	(2.1)
Preferred dividends	(2.3)	(1.2)	(1.2)	(1.2)
Net income (loss) to common shareholders	(14.9)	63.9	59.7	(3.3)
Basic earnings per share				
Continuing operations before cumulative effect of change in accounting principle	$ 0.24	$ 0.27	$ 0.27	$ (0.25)
Cumulative effect of change in accounting principle, net	(0.31)	–	–	–
Discontinued operations, net	–	0.02	–	0.24
Net income (loss) to common shareholders	(0.07)	0.29	0.27	(0.01)
Basic weighted average common shares	212,399,834	222,728,058	224,852,299	244,005,670
Diluted earnings per share				
Continuing operations before cumulative effect of change in accounting principle	$ 0.22	$ 0.27	$ 0.26	$ (0.25)
Cumulative effect of change in accounting principle, net	(0.27)	–	–	–
Discontinued operations, net	–	0.01	–	0.24
Net income (loss) to common shareholders	(0.05)	0.28	0.26	(0.01)
Diluted weighted average common shares	235,639,711	233,867,955	233,161,256	244,005,670
Dividends per common share	$ 0.03	$ 0.03	$ 0.03	$ 0.03

[1] Includes other operating items of $32.5, $12.7, $(302.3) and $(138.3) for the first quarter of 1998, the third quarter of 1998, the fourth quarter of 1998 and the fourth quarter of 1997, respectively.

Selected Financial Data

The following table sets forth selected consolidated financial data relating to the Corporation for each of the years between 1994 and 1998, inclusively.

For the years ended December 31,
(In millions of U.S. dollars, except share and minute data and number of employees)

	1998	1997	1996	1995	1994
Total revenues	$ 3,388.9	$ 2,914.2	$ 2,469.6	$ 1,496.4	$ 1,119.4
Total operating expenses[1]	3,299.8	2,671.9	2,131.5	1,334.9	1,016.5
Operating income	89.1	242.3	338.1	161.5	102.9
Income from continuing operations before income taxes, minority interests, cumulative effect of change in accounting principle and extraordinary item	12.8	225.9	342.1	134.0	107.1
Provision for income taxes	8.6	116.0	116.4	68.1	41.0
Minority interests	10.7	6.8	3.8	–	–
Cumulative effect of change in accounting principle, net	–	(65.2)	–	–	–
Income from continuing operations before extraordinary item	14.9	51.5	229.5	65.9	66.1
Income (loss) from discontinued operations, net	–	(5.4)	3.6	16.9	11.6
Gain on disposal of discontinued operations, net	–	65.2	–	–	–
Income before extraordinary item	14.9	111.3	233.1	82.8	77.7
Extraordinary item	–	–	22.1	–	–
Net income	14.9	111.3	211.0	82.8	77.7
Preferred dividends	(4.5)	(5.9)	(9.3)	(9.3)	(8.2)
Net income to common shareholders	10.4	105.4	201.7	73.5	69.5

(1) Includes other operating items of $(257.1), $(138.3) and $(6.2) for 1998, 1997 and 1994 respectively.

Selected Financial Data (continued)

For the years ended December 31,
(In millions of U.S. dollars, except share and minute data and number of employees)

	1998	1997	1996	1995	1994
Basic earnings per share					
Continuing operations before cumulative effect of change in accounting principle and extraordinary item	$ **0.04**	$ 0.49	$ 1.05	$ 0.28	$ 0.29
Cumulative effect of change in accounting principle, net	–	(0.29)	–	–	–
Discontinued operations, net	–	0.26	0.02	0.08	0.06
Extraordinary item	–	–	(0.11)	–	–
Net income to common shareholders	**0.04**	0.46	0.96	0.36	0.35
Basic weighted average common shares	**247,367,951**	226,094,814	209,348,720	202,173,734	195,503,535
Diluted earnings per share					
Continuing operations before cumulative effect of change in accounting principle and extraordinary item	$ **0.04**	$ 0.48	$ 0.99	$ 0.28	$ 0.29
Cumulative effect of change in accounting principle, net	–	(0.28)	–	–	–
Discontinued operations, net	–	0.26	0.01	0.08	0.06
Extraordinary item	–	–	(0.09)	–	–
Net income to common shareholders	**0.04**	0.46	0.91	0.36	0.35
Diluted weighted average common shares	**252,965,282**	233,239,335	232,869,395	202,883,589	195,986,113
Dividends per common share	$ **0.13**	$ 0.12	$ 0.10	$ 0.18	$ 0.10
Total assets	**3,142.6**	3,270.2	2,086.0	1,586.1	1,342.1
Long-term debt	**702.1**	794.0	414.4	419.6	384.0
Shareholders' equity	**1,537.2**	1,476.4	960.8	651.9	581.6
Number of employees	**5,351**	4,158	4,030	3,004	2,399
Telephone traffic, in millions of minutes	**15,474**	10,702	8,304	3,715	2,014

Market price per common share*

	1998		1997	
	High	Low	High	Low
Montreal and Toronto (in Canadian dollars)				
First quarter	**$32.93**	**$20.70**	$21.33	$18.63
Second quarter	**42.40**	**31.05**	27.50	19.30
Third quarter	**44.95**	**36.20**	28.00	21.78
Fourth quarter	**56.00**	**31.50**	26.25	20.50
New York (in U.S. dollars)				
First quarter	**$23.03**	**$14.56**	$ N.A.	$ N.A.
Second quarter	**29.38**	**21.63**	19.88	16.25
Third quarter	**29.38**	**23.63**	20.32	15.88
Fourth quarter	**36.00**	**19.44**	19.02	15.00

*1998 and 1997 figures have been adjusted to reflect the two-for-one stock split effected June 15, 1998.

MAIN OFFICES

Teleglobe Inc.
Canada
Montréal, QC
Tel.: 514-868-7272
800-665-4562
800-561-1633
Fax: 514-868-7234

Teleglobe Communications Corporation
United States
Reston, VA
Tel.: 703-755-2000
800-318-3005
Fax: 703-755-2600

Excel Communications, Inc.
United States
Dallas, TX
Tel.: 214-863-8000
Fax: 214-863-8843

Excel Telecommunications (Canada) Inc.
Mississauga, ON
Tel.: 905-804-3500
Fax: 905-804-3510

OTHER OFFICES

Australia
Tel.: 61-2-9316-1755
Fax: 61-2-9695-1777

Austria
Tel.: 431-514-74673
Fax: 431-514-74630

Brazil
Tel.: 55-11-3120-5522
Fax: 55-11-3120-2510

Canada

Toronto, ON
Tel.: 416-365-1370
Fax: 416-365-0222

Ottawa, ON
Tel.: 613-566-3400
Fax: 613-566-3410

Burnaby, BC
Tel.: 604-293-4200
Fax: 604-293-4249

Colombia
Tel.: 57-1-629-2909
57-1-629-2864
57-1-629-2875
57-1-629-2886
Fax: 57-1-629-2897

Czech Republic
Tel.: 420-2-2185-2360
Fax: 420-2-2185-2090

Denmark
Tel.: 45-7025-9977
Fax: 45-7025-9979

Egypt
Tel.: 20-2-260-7700
20-2-260-7200
Fax: 20-2-403-6067

France
Tel.: 33-1-56-59-86-80
Fax: 33-1-56-59-86-99

Germany
Tel.: 49-69-25-9037
Fax: 49-69-25-9249

Hong Kong
Tel.: 852-2-530-8500
Fax: 852-2-537-7417

India
Tel.: 91-11-647-4701,
extension 306
Fax: 91-11-622-7915

Indonesia
Tel.: 62-21-515-7777
Fax: 62-21-515-7799

Israel
Tel.: 9723-923-1959
Fax: 9723-923-1955

Italy
Tel.: 39-02-754-11001
Fax: 39-02-716431

Japan
Tel.: 81-3-5771-5501
Fax: 81-3-5771-5505

Malaysia
Tel.: 603-209-1233
Fax: 603-209-4361

Mexico
Tel.: 525-628-1233
Fax: 525-628-1212

Netherlands
Tel.: 31-13-455-4818
Fax: 31-13-547-8088

Norway
Tel.: 47-675-21200
Fax: 47-675-21201

Philippines
Tel.: 632-878-6003
Fax: 632-878-6013

Russia
Tel.: 7-095-941-86-89
Fax: 7-095-941-86-88

Singapore
Tel.: 65-227-2128
Fax: 65-227-4836

Spain
Tel.: 34-9-1-6574890
Fax: 34-9-1-6620679

Thailand
Tel.: 66-2-636-2170
66-2-636-2171
Fax: 66-2-636-2172

United Arab Emirates
Tel.: 971-2-266-223
Fax: 971-2-272-624

United Kingdom

Milton Keynes
Tel.: 44-190-854-4300
44-800-914-1855
Fax: 44-190-854-4301

London
Tel.: 44-171-544-8658
Fax: 44-171-544-8552

United States

Teleglobe Communications Corporation

Los Angeles, CA
Tel.: 310-575-4814
Fax: 310-575-1814

San Francisco, CA
Tel.: 925-847-4016
Fax: 925-847-4017

Miami, FL
Tel.: 954-916-2696
Fax: 954-916-2697

Chicago, IL
Tel.: 312 474-6110
Fax: 312 474-6120

New York, NY
Tel.: 212-813-1888
Fax: 212-644-0530

Excel Communications, Inc.
Call Centers

Addison 972-738-1000
Houston 713-219-5000
Reno 702-823-7500

31 sales offices

Board of Directors

Charles Sirois
Chairman and Chief
Executive Officer
Teleglobe Inc.

Kenny A. Troutt
Vice Chairman, President
and Chief Operating Officer
Teleglobe Inc.
Chief Executive Officer
and Founder
Excel Communications, Inc.

[1]**Derek H. Burney**
Chairman and Chief
Executive Officer
Bell Canada
International Inc.

[2]**Bruno Ducharme**
President and Chief
Executive Officer
Telesystem International
Wireless Inc.

[2,4]**A. Michael Hainsfurther**
Vice President
Munsch Hardt Kopf Harr
& Dinan, P.C.

[3]**John A. MacDonald**
President and Chief
Operating Officer
Bell Canada

[3]**T. Allan McArtor**
President and Chief
Executive Officer
Legend Airlines, Inc.

[3,4]**C. Edward Medland**
President
Beauwood Investments Inc.

[2]**Jean C. Monty**
President and Chief
Executive Officer
BCE Inc.

[1]**Marvin Moses**
Corporate Director

[1]**Carmand Normand**
President and Chief
Executive Officer
Addenda Capital Inc.

[1,4]**Gregory S. Oliver**
Partner
Blakeney, Blackburn
& Oliver, L.L.P.

[2]**Stephen R. Smith**
Corporate Director

[1,4]**H. Arnold Steinberg**
Partner
Cleman Ludmer
Steinberg Inc.

[1,3]**John M. Zrno**
Corporate Director

[1]Finance Committee
[2]Human Resources Committee
[3]Audit Committee
[4]Corporate Governance Committee

Teleglobe Advisory Board

Frank J. Biondi, Jr.
California, USA

Edgar Bronfman, Jr.
President and Chief
Executive Officer
Joseph E. Seagram
& Sons, Inc.
New York, USA

Henri de Maublanc
President
Politel
Paris, FRANCE

Esther Dyson
Chairman
EDventure Holdings Inc.
Interim Chairman
Internet Corporation for
Assigned Names & Numbers
New York, USA

Christina Gold
President and Founder
The Beaconsfield Group
New York, USA

Ambassador Diana Lady Dougan
Senior Advisor
and International
Communications
Studies Chair
Center for Strategic and
International Studies (U.S.)
Washington, D.C., USA

Michio Naruto
Vice Chairman
Fujitsu Limited
Tokyo, JAPAN

Charles Sirois
Chairman and Chief
Executive Officer
Teleglobe Inc.
Montréal, CANADA

Walter Bigelow Wriston
Former Chairman
Citicorp
New York, USA

Office of the Global Executives

Charles Sirois
Chairman and
Chief Executive Officer
Teleglobe Inc.

Paolo Guidi
Chairman and
Chief Executive Officer
Teleglobe Communications
Corporation

Nicholas A. Merrick
President and Chief
Executive Officer
up2 technologies inc.
Executive Vice President,
Business Development
Excel Communications, Inc.

Claude Séguin
Executive Vice President,
Finance and
Chief Financial Officer
Teleglobe Inc.
Chairman and
Chief Executive Officer
Teleglobe World Mobility

Guthrie J. Stewart
Executive Vice President,
Global Development
Teleglobe Inc.

Kenny A. Troutt
Vice Chairman, President
and Chief Operating Officer
Teleglobe Inc.
Chief Executive Officer
and Founder
Excel Communications, Inc.

Other Officers

Stephen Beebe
Senior Vice President,
Finance and
Chief Financial Officer
Teleglobe Communications
Corporation

André Bourbonnais
Vice President,
Chief Legal Officer
and Corporate Secretary
Teleglobe Inc.

Brigitte Bourque
Vice President, Corporate
Human Resources and
Employee Communications
Teleglobe Inc.

Meriel V.M. Bradford
Vice President,
Canadian Government
and External Relations
Teleglobe Inc.

John Brunette
Vice President,
General Counsel
and Corporate Secretary
Teleglobe Communications
Corporation

Gian Franco Bucelli
Vice President
and General Manager,
ROW and Key Accounts
Teleglobe Communications
Corporation

Andrew Burroughs
Vice President,
Global Marketing
and Product Management
Teleglobe Communications
Corporation

John C. Cahill
President, Teleglobe USA Inc.
Vice President and General
Manager, Americas
Teleglobe Communications
Corporation

Stephen G. Canton
President, Telco
Communications Group, Inc.

Michel Cayouette
Vice President and General
Manager, Pacific Rim
Teleglobe Communications
Corporation

Rick Ciccone
Vice President
and General Manager,
Western Europe
and Southeast Asia
Teleglobe Communications
Corporation

Robert D. Collet
Vice President
and General Manager,
Data and Internet Services
Teleglobe Communications
Corporation

Christopher J. Dance
President, Local Services
Excel Communications, Inc.

Jacques Deforges
Vice President and
Corporate Treasurer
Teleglobe Inc.

Richard Gendron
Vice President,
Business Services (Canada)
Teleglobe Communication
Services Inc.

Jean-Pierre Gratton
Vice President
and General Manager,
Canadian Carrier Services
Teleglobe Communications
Corporation

Kenneth L. Hilton
Executive Vice President,
Marketing
Excel Communications, Inc.

Craig Holmes
Executive Vice President,
Finance and Chief
Financial Officer
Excel Communications, Inc.

Dominique Jacquet
Vice President,
Information Technology and
Chief Information Officer
Teleglobe Communications
Corporation

Paula Kruger
Executive Vice President,
Customer/IR Operations
Excel Communications, Inc.

François Laurin
Vice President, Finance
and Corporate Controller
Teleglobe Inc.

Marc Leroux
President and Chief
Operating Officer
Teleglobe World Mobility

Charles Jack Norris
Senior Vice President
and Chief Network Officer
Teleglobe Communications
Corporation

John O'Boyle
Vice President,
Carrier Relations
Teleglobe Communications
Corporation

Kevin Pennington
Vice President,
Human Resources
and Administration
Excel Communications, Inc.

Selby Shaver
President and
Chief Operating Officer
Excel Communications, Inc.

Stephen R. Smith
Executive Vice President,
Marketing, Emeritus
Excel Communications, Inc.

Donna G. Tanenbaum
Vice President,
Human Resources
Teleglobe Communications
Corporation

Philip M. Walker
Vice President,
Corporate Development
and Regulatory Affairs
Teleglobe Communications
Corporation

Investor Information

Auditors
Raymond, Chabot, Grant Thornton
600 de La Gauchetière Street West
Tour de la Banque Nationale
Suite 1900
Montréal (Québec) H3B 4L8
CANADA

Arthur Andersen & Cie
5, Place Ville-Marie, Suite 1000
Montréal (Québec) H3B 4X3
CANADA

Bankers
National Bank of Canada
600 de La Gauchetière Street West
Montréal (Québec) H3B 4L2
CANADA

Bank of America
901 Main Street
64th Floor
Dallas, TX 75202
USA

Société Générale (Canada)
1501 McGill College Avenue
Suite 1800
Montréal (Québec) H3A 3M8
CANADA

Bank One, TX
1717 Main Street
3rd Floor, TXI-2436
Dallas, TX 75201
USA

Bank of Montréal
129 St. Jacques Street West
Montréal (Québec) H2Y 1L6
CANADA

Royal Bank of Canada
1 Place Ville-Marie
P.O. Box 6001
Montréal (Québec) H3C 3A9
CANADA

Citibank
11800 Spectrum Center
Reston, VA 22190
USA

Transfer Agent and Registrar
Montreal Trust Company
Written correspondence :
Montreal Trust Company
P.O. Box 1900
Station B
Montréal (Québec) H3B 3L6
CANADA

Address :
1800 McGill College Avenue
6th Floor
Montréal (Québec) H3A 3K9
CANADA
Tel. : 1-800-564-6253
(514) 982-7555
Fax : (514) 982-7635

Annual Meeting
The Annual Meeting of Teleglobe Inc. will be held at 1 p.m. on Wednesday, May 12, 1999, at the Hôtel Omni Montréal, « Salon des Saisons », 1050 Sherbrooke Street West, Montréal (Québec). Shareholders are invited to attend this meeting

STOCK EXCHANGE LISTINGS
The Montreal Exchange
The New York Stock Exchange
The Toronto Stock Exchange

SYMBOL: TGO

SECURITIES COMMISSION FILINGS
In addition to its annual report, the Corporation files an Annual Information Form (AIF) with the Canadian securities commissions. Under the multi-jurisdictional disclosure system, it also files with the U.S. Securities and Exchange Commission an annual report, AIF and Management Proxy Circular as attachments to Form 40-F.

For further information or additional copies of any of these documents, please visit our web site: http://www.teleglobe.com

Teleglobe Inc.
1000 de La Gauchetière Street West
Montréal (Québec) H3B 4X5

INVESTOR RELATIONS
Nicole Blanchard
Director, Investor Relations
Internet: nblancha@teleglobe.ca
1-877-483-5345

CORPORATE COMMUNICATIONS
Sylvia Morin
Director, Communications
Internet: smorin@teleglobe.ca

Trade-marks
Teleglobe, TELEGLOBE, the symbol and the corporate signature of which it is part, Canada Direct, Globesystem Atlantic, CANUS 1 and Globeinternet are trade-marks of Teleglobe Inc.

Jazz Media Network is a trade-mark of Teleglobe Inc., used under license by Jazz Media Network Inc.

Millennium is a service mark of Teleglobe International Corporation.

ORBCOMM is a trade-mark of ORBCOMM Global, L.P.

Excel's Simply 7 and Excel Online are service marks of Excel Telecommunications, Inc.

Prime Business Select is a service mark of Telco Communications Group, Inc., used under license by Prime Business Communications, Inc.

Pour obtenir un exemplaire de la version française du rapport annuel, veuillez écrire au service des Relations avec les investisseurs.

Management's Discussion and Analysis and consolidated financial statements prepared in Canadian dollars in accordance with generally accepted accounting principles in Canada (Canadian GAAP).

Management's Discussion and Analysis

The following discussion and analysis of the results of operations and financial position of Teleglobe Inc. ("Teleglobe" or "the Corporation") is based on consolidated financial statements prepared in accordance with generally accepted accounting principles in Canada ("Canadian GAAP"). On November 10, 1998, the Corporation acquired all of the issued and outstanding common shares of Excel Communications, Inc. ("EXCEL"). The transaction has been accounted for under the purchase method of accounting and therefore the purchase price and acquisition costs were allocated to net assets acquired. Accordingly, the consolidated results of operations for the year ended December 31, 1998 include EXCEL's consolidated financial results from November 10, 1998.

For the year ended December 31, 1998 and in prior years, Teleglobe's consolidated financial statements were presented in Canadian dollars, its functional currency, and in accordance with Canadian GAAP. As a result of the increased scope of its operations in the United States of America ("U.S.") denominated in U.S. dollars, the Corporation has adopted the U.S. dollar and U.S. GAAP for reporting purposes in addition to the consolidated financial statements presented under Canadian GAAP. Readers will note that the consolidated financial statements prepared in accordance with Canadian GAAP differ materially from those prepared in accordance with U.S. GAAP.

Consolidated Results

In 1998, the Corporation reported a net loss of $66.2 million, or diluted earnings (loss) per share of ($0.50), compared to a net income of $140.5 million in 1997, or $1.02 per share on a diluted basis. Net income was $112.5 million in 1996, or $0.84 per share on a diluted basis.

Reported results

(in millions of dollars, except per share amounts) Years ended December 31,	1998	1997	1996
Operating income before depreciation and amortization	**$ 500.1**	$ 395.3	$ 378.8
Operating income	**329.1**	265.7	215.4
Net income (loss)	**(66.2)**	140.5	112.5
Diluted earnings (loss) per share (EPS)	**(0.50)**	1.02	0.84
Impact of non-recurring items, net of income taxes	**(289.9)**	4.4	4.9
Diluted EPS impact of non-recurring items	**(1.96)**	0.03	0.04

The 1998 results were affected mainly by an extraordinary item of $265.6 million, net of income taxes of $124.2 million, which reduced diluted earnings per share by $1.81. This non-cash charge to operations is related to a write-down in the carrying value of certain equipment, cable systems and goodwill in conjunction with the end of the Corporation's exclusive mandate as the sole authorized provider of facilities-based overseas telecommunication services in Canada, reflecting the expectation of increased competition, especially for outbound Canadian traffic, as well as accelerated asset replacement due to continued technological innovation.

Other non-recurring items had a negative impact of $24.3 million in 1998 and a positive impact of $4.4 million and $4.9 million in 1997 and 1996, respectively.

Non-recurring items

The Corporation recorded various non-recurring items as follows:

Non-recurring items (in millions of dollars)

Years ended December 31,	1998	1997	1996
Pre-tax non-recurring items			
Expenses			
EXCEL Non-Recurring Expenses	**$ (61.8)**	$ –	$ –
Write-down of Investments	**(9.1)**	–	–
Globesystem Atlantic™ Impairment	–	(92.8)	–
Optel Communications Inc. Impairment	–	(22.0)	–
Odyssey™ Project Abandonment	–	(24.5)	–
Gains			
Sale of interests in INMARSAT and Stratos Wireless Inc.	**23.4**	–	–
Sale of CGI Group Inc. Shares	–	121.6	–
Total	**(47.5)**	(17.7)	–
Tax benefit	**23.2**	–	–
	(24.3)	(17.7)	–
After-tax non-recurring items			
Income from discontinued operations	–	3.7	4.9
Gain on disposal of discontinued operations	–	18.4	–
Extraordinary item	**(265.6)**	–	–
Total non-recurring items, after income tax	**$ (289.9)**	$ 4.4	$ 4.9

In 1998, EXCEL recorded non-recurring expenses of $61.8 million for the integration of its Telco Communications Group, Inc. ("Telco") network and administrative functions as well as additional bad debt expenses. These resulted primarily from billing delays and other bill processing problems related to the implementation of a new customer care system. These items are reflected in the consolidated statements of operations in "Selling, general and administrative expenses" and to a lesser degree, in "Telecommunication and network expenses." Telco was acquired by EXCEL in 1997.

A full description of the remaining non-recurring items is presented in Notes 4, 5 and 6 to the consolidated financial statements.

Results of operations

Consolidated revenues (in millions of dollars)

Years ended December 31,	1998	1997	1996
Telecommunication	**$2,079.2**	$ 1,431.2	$ 999.4
Telecommunication revenues from related parties	**517.3**	556.7	563.3
Marketing services	**15.4**	–	–
Total revenues	**$2,611.9**	$ 1,987.9	$ 1,562.7

Telecommunication revenues increased 45.3% in 1998 compared to 1997. EXCEL contributed $357.4 million of revenues in 1998 and Teleglobe Communications Corporation ("TCC") accounted for most of the balance of the increase. In 1997, the 43.2% increase in telecommunication revenues (excluding revenues from related parties) is attributable mainly to TCC, which contributed higher revenues, due to strong growth in global traffic minutes, as well as transmission and data revenues.

Telecommunication revenues from related parties are from members of the Stentor alliance of Canadian telephone companies of which subsidiaries and affiliates of BCE Inc. ("BCE"), a major shareholder of the Corporation, are members. These revenues decreased 7.1% as a result of declining prices attributable to higher competition. Such revenues are expected to be lower in 1999 for the same reason.

Marketing service revenues are recorded by EXCEL for training, business forms, promotional and presentation materials, ongoing technical and administrative support services, and monthly reports provided to independent sales representatives (IRs).

Operating expenses

Operating expenses (in millions of dollars) Years ended December 31,	**1998**	1997	1996
Telecommunication and network	**$1,700.3**	$1,379.8	$1,069.5
Selling, general and administrative	**425.8**	195.1	114.4
Depreciation and amortization	**171.0**	129.6	163.4
Unusual items	**(14.3)**	17.7	–
Total operating expenses	**$2,282.8**	$1,722.2	$1,347.3

Telecommunication and network expenses were 23.2% higher in 1998 compared to 1997, due mainly to the inclusion of EXCEL which added $193.6 million, of mainly telecommunication and network charges. The balance of the increase is attributable to TCC, and relates mainly to higher terminating charges as a result of the increase in global traffic minutes. The 29.0% increase from 1996 to 1997 is attributable to a 112.8% rise in TCC's global traffic.

Telecommunication and network expenses are expected to increase as a result of continued growth in TCC's traffic minutes and the continued buildout and expansion of the Corporation's telecommunications network. However, as revenues grow, cost per unit of traffic should decrease, through greater network efficiency.

The increase in 1998 selling, general and administrative ("SG&A") expenses reflects $174.2 million of EXCEL's SG&A. Most of the remaining increase in 1998 and the increase from 1996 to 1997 are attributable to TCC and relate to the expansion in the number of international business offices. Excluding non-recurring items recorded by EXCEL, SG&A expenses as a percentage of telecommunication revenues were 17.9% in 1998 compared to 13.6% in 1997 and 11.4% in 1996.

Depreciation and amortization rose $41.4 million in 1998 from 1997. Approximately half of this increase is attributable to the inclusion of EXCEL's depreciation and amortization and most of the balance is due to TCC's larger asset base. Depreciation and amortization will continue to rise as the Corporation extends its telecommunications network in North America and internationally.

Income taxes

Income taxes totaled $96.5 million in 1998 against $110.3 million in 1997 and $72.0 million in 1996. Despite the earnings growth, 1998 resulted in a $13.8 million decrease due to the utilization of unrecorded amounts of losses carryforward. The $38.3 million increase from 1996 to 1997 resulted from the earnings growth of Teleglobe Canada Inc. ("TCI"), the only significant taxable entity at that time.

The effective tax rate was 32.6% in 1998 compared to 48.2% in 1997 and 40.1% in 1996. The lower rate in 1998 compared to 1997 was due to the fact that prior years' losses for which no tax benefit had been recorded, were utilized during the year. The higher rate in 1997 compared with 1996 was related to the fact that no tax benefit was claimed in connection with losses incurred by the Corporation's new business units and that only part of the allowable tax benefit was recorded in connection with the unusual items.

Segmented Results

The Corporation manages its operations based on four strategic business units: TCC, EXCEL, Teleglobe World Mobility ("TWM") and Teleglobe Enterprises ("TE"). These units are segregated based on the different products and services they provide. The two primary business units are TCC and EXCEL, providing most of the Corporation's revenues. ORBCOMM Global, L.P. ("ORBCOMM") and Look Communications Inc. ("LOOK"), which are included in TWM and TE, respectively, are considered development stage enterprises and are viewed by management as non-core operations.

TCC

TCC provides international voice services, data transmission, Internet connectivity and broadcast services through one of the world's largest intercontinental telecommunications networks.

TCC revenues (in millions of dollars)

Years ended December 31,	1998	1997	1996
Telephony – Canadian outbound	**$ 669.2**	$ 748.2	$ 702.0
Telephony – International market			
Canadian inbound	**271.8**	330.2	361.6
Global	**987.3**	776.3	399.2
Transmission and data	**299.0**	106.0	52.2
Total TCC revenues	**2,227.3**	1,960.7	1,515.0
Segment profit	**340.2**	122.3	181.6
Impact of non-recurring items on segment profit	–	(114.8)	–

Total revenues increased 13.6% in 1998 compared to 1997, reflecting strong growth in global switched services as well as transmission and data revenues, including Internet traffic. This more than offset the decline in revenues from Canadian outbound and inbound traffic, resulting from decreasing prices. From 1996 to 1997, revenues rose 29.4%, while global revenues increased by 94.5%. Revenues from transmission and data services rose 103.1%, reflecting TCC's rapid emergence as a leading Internet connectivity provider, as well as growth in international private lines.

TCC traffic (in millions of minutes)

Years ended December 31,	1998	1997	1996
Telephony – Canadian outbound	**1,145**	1,112	915
Telephony – International market			
Canadian inbound	**760**	737	671
Global	**1,724**	951	447
Total traffic	**3,629**	2,800	2,033

Traffic volume carried by TCC rose 29.6% in 1998 and 37.7% in 1997. In line with the Corporation's strategy of penetrating global markets, the proportion of Canadian-related traffic continues to decrease. Canadian outbound traffic accounted for 31.6% of total 1998 traffic (28.3% in the fourth quarter of the year), compared to 39.7% in 1997. Global traffic rose 81.3% in 1998 and 112.8% in 1997.

TCC operating expenses

TCC's operating expenses were stable in 1998 compared to 1997 despite higher traffic as a result of lower variable costs per minute. This performance reflects TCC's success in least-cost routing and improved cost control, as well as the continued decline in rates for terminating traffic. SG&A expenses increased due to continuing international development activities. In 1997, operating expenses rose significantly as a result of a 37.7% increase in traffic and higher SG&A expenses related to the opening of a large number of international offices in liberalizing telecommunications markets.

Current and future trends

Prices per minute of long distance continue to fall. TCC continues to diversify its revenues on a global basis, as well as pursuing aggressive cost-cutting through the development of least-cost routing capabilities. TCC will continue to increase network efficiency and traffic volume to compensate for pricing pressures and maintain profitable margins.

As expected, the Corporation's exclusive mandate as Canada's overseas telecommunications carrier was lifted in October 1998. Teleglobe will continue to file its tariffs for approval by the Canadian Radio-television and Telecommunications Commission. Concurrently, routing restrictions on Canada/U.S. and Canada/Canada traffic, as well as other impediments to domestic competition were rescinded, allowing Teleglobe to offer more services and to do so more efficiently. In addition, the emergence of new local exchange carriers in Canada is creating a new base of potential customers for the Corporation's international connectivity services. The EXCEL transaction reduced the impact

of the Canadian market on the Corporation's total revenues. On a pro forma basis with EXCEL, Canadian outbound and inbound minutes represented 12.3% of Teleglobe's consolidated minutes in 1998. Prior to the EXCEL acquisition, such traffic accounted for 66.0% of total minutes in 1997 and 78.0% in 1996.

In 1998, the Corporation, Stentor Resource Centre and each of the members of the Stentor alliance of Canadian regional telephone companies reached an agreement on the main terms of new arrangements for the continuing supply of services between the parties until the end of 2000. Both parties made routing commitments to each other, subject to competitive pricing conditions, covering Stentor's outbound international traffic and Teleglobe's inbound international traffic. Each Stentor company is party to these agreements.

TCC has quickly built a robust Internet and data backbone to capitalize on the explosion of data traffic, especially related to the Internet. It has successfully leveraged its international position and strong U.S. presence to become a provider of choice for connecting Internet Service Providers from around the world to North America, home to most Web sites and content development activity.

EXCEL

EXCEL's results of operations for the period from November 10, 1998 to the end of the year are included in the Corporation's consolidated financial statements. Revenues were $357.4 million, including $280.0 million from presubscribed and casual calling residential customers. Medium and large-size commercial accounts generated revenues of $37.8 million for the period and the balance was contributed by wholesale long distance services and marketing services.

Long distance minutes totaled 1,510 million minutes for the period, including 862 million minutes from presubscribed customers and 211 million minutes of casual calling. Commercial and wholesale services contributed 230 million and 207 million minutes, respectively.

EXCEL's operating expenses totaled $390.6 million for the period. This includes $61.8 million in non-recurring expenses related mainly to the integration of its Telco network and administrative functions as well as additional bad debt expenses. These resulted primarily from billing delays and other bill processing problems related to the implementation of a new customer care system.

Including the impact of these non-recurring expenses, the segment loss for the period was $38.9 million.

Current and future trends

EXCEL has taken appropriate action to resolve difficulties experienced in 1998 in its billing and in the implementation of its new customer care system. As system performance improves, customer activation will accelerate and EXCEL will be positioned to increase its revenues. The migration of traffic to its own network provides a lower cost base for 1999 and should allow greater flexibility for introducing new products.

A new long distance calling plan was launched in the fourth quarter of 1998 and dial-up Internet access services were introduced in early 1999. These new products are expected to stimulate EXCEL's sales force of IRs and generate additional revenues. EXCEL and TCC are planning to jointly introduce competitive international long distance services to the existing residential customer base through the IRs and new products to commercial customers.

In addition to revitalizing its U.S. sales, EXCEL will leverage the Corporation's international presence by penetrating new retail markets, starting with Canada in the first quarter of 1999. Based on the success of this initiative, EXCEL will determine the timing of market entry into other G7 countries and elsewhere in the world as domestic telecommunications markets open to foreign operators.

In order to realize internal synergies, the Corporation has integrated EXCEL's wholesale business into TCC. In addition, the casual calling business has been refocused on specific population segments, particularly those with a high propensity for international long distance calling.

Other operations

The Corporation holds interests in several joint ventures, including an interest in five cable ships held through Teleglobe Marine (U.S.) Inc. ("TMI"), as well as owning 30% of its Montreal head office building. It also has an ownership interest in the International Telecommunications Satellite Organization ("INTELSAT").

Teleglobe owns a 50% interest in the ORBCOMM™ digital satellite data telecommunications system. Another division, Teleglobe Media Enterprises ("TME"), is an investor in LOOK, a start-up company providing digital wireless broadcast distribution services in competition with incumbent cable television operators and Direct-to-Home satellite service providers in Ontario and Québec, Canada. ORBCOMM and LOOK are development stage enterprises and are considered as non-core operations. Except for the investment in LOOK, all of these interests are accounted for by the proportionate consolidation method.

TE recorded revenues of $27.2 million in both 1998 and 1997, generated by TMI. The segment profit was $2.7 million in 1998, including an investment write-down of $9.1 million. Segment profit was $13.6 million in 1997. Losses incurred by ORBCOMM and LOOK were capitalized in 1998 since both companies were considered as development stage enterprises.

Current and future trends

Losses incurred by ORBCOMM and LOOK will start to be charged to operations and deferred losses will be amortized beginning in 1999. ORBCOMM will be in its first year of full commercial operation and LOOK will be offering services in substantially all of its licensed areas. Both companies will require further funding before they achieve break-even on an operating cash flow basis, and the Corporation and its partners will be required to provide such funding if other financing alternatives are unsuccessful.

Balance Sheet Items

Total assets increased to $9,072.1 million at the end of 1998 compared to $2,584.0 million at the end of 1997. The main reason for this change is the goodwill and intangibles of $5,372.5 million booked in connection with the EXCEL transaction. The balance of the difference mainly reflects other assets acquired as part of the same transaction, principally accounts receivable and property, plant and equipment.

Total liabilities rose to $2,692.7 million in 1998 compared to $1,429.9 million in 1997. The principal variances are higher accounts payable, accrued liabilities and long-term debt resulting from the EXCEL transaction. Shareholders' equity increased to $6,379.2 million in 1998 compared to $1,114.5 million in 1997. This difference is attributable to the issuance of the Corporation's common shares in consideration for all the issued and outstanding common shares of EXCEL.

Liquidity and Financial Resources

Liquidity and Financial Resources
(in millions of dollars)

Years ended December 31,	**1998**	1997	1996
Net cash provided by (used in):			
Operating activities of continuing operations before changes in non-cash operating balances	**$ 339.4**	$ 281.1	$ 270.8
Operating activities of continuing operations	**427.3**	329.8	212.3
Investing activities	**(5,584.1)**	(204.5)	(194.7)
Financing activities	**5,182.5**	(169.6)	62.3

Net cash provided by operating activities of continuing operations increased 29.6% in 1998, mainly as a result of higher income from continuing operations before depreciation and amortization and non-cash charges.

Excluding the impact of the EXCEL acquisition, which required $5,154.3 million net of cash acquired, investing activities used $225.3 million more cash in 1998 than in 1997. This is attributable to higher capital expenditures, mainly by TCC, and the variation in investments due primarily to the purchase of an additional 15% interest in ORBCOMM.

Financing activities provided cash of $6.9 million, net of $5,175.6 million provided by the Corporation's issuance of common shares in consideration of all the issued and outstanding

common shares of EXCEL. Net long-term debt repayments totaled $249.0 million, offset by the issuance of a promissory note for $100.0 million and $248.0 million of net proceeds from the issuance of common shares. BCE acquired 5.4 million common shares for $218.2 million and the balance of $29.8 million represents the conversion of first series preferred shares and the exercise of options.

The Corporation paid dividends of $55.4 million in 1998 compared to $43.0 million in 1997, reflecting a higher average number of common shares outstanding. It also repurchased and cancelled common shares for $18.4 million under a normal course issuer bid.

The Corporation expects higher capital expenditures in coming years in order to expand its network capacity and bandwidth to seize market opportunities. It plans to invest up to US$500 million in fixed assets in 1999, with two-thirds earmarked for the network and the balance for information systems and intelligent product platforms.

Total indebtedness, comprising long-term debt, short-term credit facilities and current maturities of long-term debt, increased $735.5 million in 1998 attributable mainly to the consolidation of EXCEL's balance sheet. The Corporation's ratio of total indebtedness over capitalization improved to 17.5% in 1998 from 35.6% in 1997.

The Corporation has various term and revolving credit facilities available, with unused portions totaling approximately $1,341.7 million at the end of 1998. Management considers that it has sufficient sources of funds from operating activities, unused portions of existing credit facilities and access to capital markets at competitive rates in order to meet its working capital requirements, capital investments, debt repayments and other obligations in 1999 and future years. In 1999, the Corporation will take steps to restructure its credit facilities in line with its future needs.

The Corporation's debentures are rated "A" by both Canadian Bond Rating Service and Dominion Bond Rating Service in Canada.

Financial instruments

The Corporation is exposed to market risks related to foreign currency fluctuations and interest rates as well as credit risks. Derivatives are used to hedge cash flow items recorded in foreign currencies, with a duration of less than one year. It has also concluded interest rate swaps for a portion of its debt to convert part of its fixed rate debt to floating rates. To reduce the risk of these derivative financial instruments, the Corporation diversifies its exchange contracts and interest rate swaps by dealing with financial institutions having a high credit rating.

As of January 1, 1999, the Corporation adopted the U.S. dollar as its currency of measurement. Foreign currency fluctuation risk is being assessed to determine whether this change calls for different risk management strategies.

Other factors affecting the Corporation

Integration of EXCEL. The merger of Teleglobe and EXCEL involves the integration of two entities that have previously operated independently and there is no assurance that the Corporation will not encounter significant difficulties with such integration. Potential issues include the failure to retain key employees and to realize the expected benefits of the merger. This risk is mitigated by a number of factors, including the absence of significant overlap in the respective operations of the two entities. Moreover, the main information technology systems are expected to remain separate for the foreseeable future.

Regulatory changes. The operations of the Corporation will continue to be affected by regulatory changes in the United States, Canada and the rest of the world. Ongoing events associated with the 1996 Telecommunications Act in the United States may lead to access charge reform which could change the Corporation's existing transmission costs and those of other long distance companies, as well as permit the entry by the Regional Bell Operating Companies into the long distance market resulting in increased competition, lower prices and loss of market share.

In conjunction with the opening of the local telephone market in the United States, incumbent local phone companies are not likely to provide billing services for customers presubscribed to competitive local phone companies. This would force EXCEL to either bill customers directly, enter into billing and collection agreements with new local phone companies or seek other alternatives.

Illustration: Marie-Hélène Sirois

Liberalization in markets outside the United States and Canada is resulting in increased competition. However, this trend is creating new opportunities for the Corporation to diversify its revenues and offer more services to more potential customers.

Competitive factors. The Corporation has observed increased competition in all of its distribution channels as well as an increase in the number of promotional and discounted calling plans available to all long distance consumers, particularly in the retail residential segment. In general, the impact has been a decline in the Corporation's revenue per minute as it has responded to competitive pressures with lower priced products.

Year 2000 Readiness Disclosure

The Year 2000 issue being addressed by the Corporation concerns the potential inability of certain information systems to process date-sensitive information with respect to the change of century. Without correction, the Corporation's telecommunications facilities, computer equipment and software devices that are time-sensitive may misinterpret a date using, for example, "00" as being the year 1900, rather than the year 2000. This misinterpretation could result in a miscalculation or a failure of the relevant information system, possibly causing a disruption of operations. Potential disruptions could include among other things, a temporary inability to provide certain telecommunications services, to perform certain business operations, such as identification of customer traffic, customer information and billing, or to use internal computer and software systems in the normal course of the Corporation's business.

EXCEL, which joined the Teleglobe group of companies following the November 10, 1998 business combination described earlier (the "Teleglobe-EXCEL merger") had developed its own Year 2000 plan before joining Teleglobe. Since the timeframe for Year 2000 compliance is short, the Corporation decided to pursue both programs separately, without a specific integration plan, except for certain monitoring and reporting functions described therein.

Accordingly, this section will discuss each of the common and, where appropriate, the distinct elements of both Teleglobe's and EXCEL's programs separately. Reference will be made to "Teleglobe" and/or "EXCEL" as appropriate. Reference to "Teleglobe" shall mean Teleglobe Inc. and/or all or any of its subsidiaries or any successor thereof prior to the Teleglobe-EXCEL merger, and reference to EXCEL shall mean EXCEL Communications, Inc. and/or all or any of its subsidiaries or any successor thereof prior to the Teleglobe-EXCEL merger.

Teleglobe has had a Year 2000 Project in place since 1996 and EXCEL since early 1998. Teleglobe's and EXCEL's Year 2000 projects are aimed at reducing the internal and external uncertainties created by the Year 2000 transition and, where possible, eliminating potential disruptions to their respective businesses caused by the input and use of dates in the Year 2000 and beyond. Teleglobe's Year 2000 program methodology has been reviewed by external consultants and internal auditors. Internally, Teleglobe's Year 2000 strategies address both its information technology and non-information technology systems and involves moving from legacy systems to a client/server environment and implementing or replacing other new systems and equipment as may be required. Teleglobe is contacting foreign and domestic telecommunications carriers with which it interconnects and material external supplier products, to (i) determine whether their services and/or products meet Year 2000 conformity requirements and (ii) evaluate their strategies and action plans for the Year 2000 transition. EXCEL's Year 2000 project is focusing on the impact of the Year 2000 date changes on EXCEL's systems and business processes, as well as external suppliers and business partners that are material to its business. In order to address possible Year 2000 issues, EXCEL has adopted a Year 2000 program methodology, and EXCEL expects this program to ensure that its core operations and essential functions will be ready for the transition to Year 2000.

Both Teleglobe and EXCEL have set up a Year 2000 project management office and a steering committee for the purpose of coordinating their efforts regarding the Year 2000 transition. Both Year 2000 offices and steering committees, which ultimately report to the Board of Directors of the Corporation, address potential Year 2000 problems and formulate guidance on Year 2000 readiness plans. In addition, each steering committee periodically provides updates to the Board of Directors of the Corporation regarding progress in its respective Year 2000 project, including a description of non-compliant systems and potential areas of exposure relating to the Year 2000.

State of Readiness

Each of Teleglobe and EXCEL's Year 2000 programs is focused on both information technology (IT) and non-IT systems, including:

1) Telecom Network: Teleglobe's international and domestic telecommunications network elements and services (voice and data); and EXCEL's telecom network elements that comprise EXCEL's switched network;
2) IT Applications: IT software applications and systems that support Teleglobe or EXCEL's telecommunications network operations and interactions with customers and other essential business and financial operations;
3) IT Infrastructure: equipment and operating systems that support Teleglobe's or EXCEL's IT infrastructure such as operational servers, PC's and LAN/WAN (local area network/wide area network) and mainframe replacement;
4) Building Facilities: physical facilities and underlying equipment and software such as facilities required in business locations to ensure operations including elevators, electricity, security and fire prevention;
5) End-Users Applications: software applications developed by users and not supported by IT systems; and
6) Third-Party Compliance: carriers, vendors and suppliers compliance assessment.

Both Teleglobe and EXCEL respective Year 2000 programs have adopted a multi-step process toward Year 2000 readiness, consisting of the following:

1) Inventory: creation of an inventory of Year 2000 affected systems to be assessed and prioritized by how critical they are to the business;
2) Impact Assessment: evaluate the impact of Year 2000 on affected systems and prioritize non-compliant items;
3) Correction: remediation of specific systems that are identified as being non-compliant through conversion, replacement or upgrade;
4) Testing: performance of tests on the date functions of the corrected systems;
5) Implementation: placement of the corrected and tested systems and technology back into their operational environments; and
6) Contingency Planning: development of contingency plans for possible system failures due to the Year 2000;

EXCEL's program differs slightly in that (i) its Testing step involves aspects of both Testing and Implementation, as defined above, and (ii) its Implementation step relates only to the development of contingency plans for possible Year 2000 system failures.

Where appropriate, Teleglobe has measured the completion of the phases of its Year 2000 program based on the following chart:

100%	85%	70%	50%	0%
completed	nearly completed	advanced	on schedule or slight delays	late

Using the chart, Teleglobe's Year 2000 program can be characterized as follows, as of January 31, 1999 (except for Third Party Compliance which is discussed herein):

1) Inventory: was completed for all systems, except for End-Users Applications which is on schedule;
2) Impact Assessment: was completed for IT Applications and IT Infrastructure and nearly completed for Telecom Network and Building Facilities;
3) Correction: was nearly completed for IT Applications and Building Facilities and advanced for Telecom Network;
4) Testing: was advanced for IT Applications and Building Facilities and on schedule for Telecom Network;

Illustration: Marie-Hélène Sirois

5) Implementation: was advanced for Building Facilities and on schedule for IT Applications and Telecom Network;
6) Correction, Testing and Implementation: performed simultaneously in the case of IT Infrastructure, were advanced for Operational Servers, and late for the PC Software upgrade but with substantial work in progress, for an overall expected completion by the end of the third quarter of 1999;
7) Impact Assessment, Conversion, Testing and Implementation: was late for End-Users Applications and is expected to be completed by the beginning of the third quarter of 1999.

Teleglobe's switching platforms have been upgraded and are currently Year 2000 compliant. An operational switch of Teleglobe was tested by advancing the clock to December 31, 1999. The roll-over from December 31, 1999 to January 1, 2000 was completed without noticeable problems, errors or interruptions. In addition, Teleglobe conducted interoperability tests with other Canadian telecommunications carriers, without noticeable problems, errors or interruptions.

EXCEL's implementation of its Year 2000 program has been based on the varying degrees of exposure of the different IT and non-IT systems used by EXCEL's departments and business units to the Year 2000. As a result, some components of the Year 2000 program are further along in the readiness process than others. However, based upon the evaluations of both internal and external resources involved in the Year 2000 program, EXCEL anticipates that all components of the Year 2000 Program will be completed by the third quarter of 1999.

As of January 31, 1999, the Inventory phase of EXCEL's Year 2000 program was approximately 80% complete, the Impact Assessment phase was approximately 30% complete, the Correction phase was 15% complete and the Testing phase was 5% complete. EXCEL is currently beginning implementation of its Contingency phase.

Certain critical computer equipment and software and other systems that Teleglobe and EXCEL are currently using require replacement or modification to be Year 2000 compliant. In addition, in the ordinary course of replacing computer equipment and software, Teleglobe and EXCEL seek replacement systems that are Year 2000 compliant.

The Corporation is including third party software and hardware in its assessment program, specifically testing such systems to the extent practicable, even if it has received Year 2000 readiness information from the vendor or supplier of the software or hardware.

The Corporation has mailed letters to its significant vendors and service providers and have verbally communicated with others to determine the state of readiness of such third parties for the Year 2000 and the extent to which products or services provided by such vendors may not be Year 2000 compliant. As of February 15, 1999, Teleglobe had received responses from approximately 95% of its vendors and Excel from approximately 60% of its vendors. The majority of the products for which responses have been received have provided written assurances that they expect to address all of their significant Year 2000 issues on a timely basis. A follow up mailing to such third parties who have not responded or whose responses were not satisfactory to the Corporation has been distributed, with responses to be provided to the Corporation before May 1999. The Corporation is considering the severance of relationships with any vendors who cannot demonstrate their Year 2000 readiness by that date, and replacing them with vendors who are deemed to be compliant.

Teleglobe continues to contact foreign carriers with a particular focus on those considered essential for prevention of a material disruption of Teleglobe's business operations. As of February 15, 1999, Teleglobe had received responses from approximately 62% of such essential foreign carriers, of which the majority have provided written assurances that they expect to address their significant Year 2000 issues on a timely basis. Three categories of foreign carriers have been established based on the level of revenues derived from such destinations and contingency plans will be established on the basis of the risk each of such foreign countries represents to Teleglobe's network.

In addition, Teleglobe participates in the Year 2000 Canadian Telecommunication Industry Forum (CTIF) where it is involved in developing test facilities and contingency plans for the Year 2000. In an effort to reduce the Year 2000 risks associated with interconnection to the networks of foreign carriers, Teleglobe also participates in the International Telecommunications Union's Year 2000 Task Force.

Use of Independent Verification and Validation

Teleglobe has retained the services of external consultants to review its Year 2000 Project and evaluate its state of readiness. The mandate of these external consultants is to perform a millennium assessment to objectively determine the overall preparedness and ability of Teleglobe to address the Year 2000 compliance issue in a timely manner. The project review is designed to provide management with an independent indication of the project status, risks and issues that Teleglobe is facing. The first review was conducted in June 1998, the second in October 1998 and a third is scheduled for March 1999. In addition, the internal audit department assumes a surveillance role over the project on an ongoing basis.

EXCEL has also retained external consultants to independently verify and validate the Year 2000 compliance process. EXCEL has also directed its external consultants to assist in the execution of the various phases of Excel's Year 2000 program. EXCEL will continue to set the priorities for its Year 2000 program, relying on additional assistance from its consultants to complete each phase in a timely manner. In addition, EXCEL's external consultants and internal auditors will continue to conduct periodic reviews of EXCEL's Year 2000 activities and report potential compliance issues that may not be resolved on a timely basis or any other significant findings, as applicable.

Although Teleglobe's and EXCEL's Year 2000 programs are conducted separately, as discussed above, the Corporation centralizes, whenever practicable, the reporting and monitoring functions of both programs. The internal audit groups of Teleglobe and EXCEL have been combined under one department. This department monitors the progress of management with respect to each of Teleglobe's and EXCEL's Year 2000 programs and reports directly to the Audit Committee of the Corporation, and ultimately to the Board of Directors of the Corporation.

Cost to Address Year 2000 Challenge

The Corporation's current estimated costs for its Year 2000 Program are approximately US$14.4 million for Teleglobe and US$25 million for EXCEL. These estimates include a capital budget of US$9.5 million and an expense budget of US$4.9 million for Teleglobe and US$9.2 million capital and US$15.8 million expense for EXCEL. Through December 31, 1998, expenditures totaled US$8.2 million (US$6.8 million capital and US$1.4 million expense) for Teleglobe and US$6.8 million (US$2.8 million capital and US$4.0 million expense) for EXCEL. The IT expenditures related to its Year 2000 Program constitute approximately 18% of Teleglobe's 1998 IT expenditures and 7% of EXCEL's and are projected to be approximately 10% for the 1999 IT budgets of both Teleglobe and EXCEL. These costs include labor for employees and contract personnel used in the Corporation's Year 2000 Programs, and non-labor costs for replacement hardware and software and other such costs associated with testing and remediation of non-compliant systems. The expenses with regard to the Year 2000 program are included in the operating and capital expenses, as part of normal operations. Other non-Year 2000 IT efforts have not been substantially delayed by the Corporation's Year 2000 programs.

Risks Associated with the Year 2000 and Contingency Plans

Teleglobe and EXCEL have begun to examine the risks associated with their "most reasonably likely worst case Year 2000 scenarios." Teleglobe's Year 2000 program is scheduled for substantial completion by the second quarter of 1999 and EXCEL's by the third quarter of 1999. Currently, neither Teleglobe nor EXCEL are aware of any specific function or system subject to the program that is significantly off the present processing schedule. A general project shift that would erode progress beyond January 1, 2000 is not anticipated at this time.

The costs of the Corporation's Year 2000 programs and the dates on which Teleglobe and EXCEL expect they will complete the related testing, assessment and implementation efforts are based upon management's best estimates, which were derived using numerous assumptions regarding future events, including the continued availability of certain resources, third-party remediation plans, and other factors, which assumptions Management believes to be reasonable. There can be no assurance that these estimates will prove to be accurate, and actual results could differ materially from those

currently anticipated. Specific factors that could cause such material differences include, but are not limited to, the availability and cost of personnel trained in Year 2000 issues, the ability to identify, assess, remediate and test all relevant computer codes and embedded technology, and similar uncertainties. In addition, variability of definitions of "compliance with Year 2000" and the myriad of different products and services, and combinations thereof, sold by Teleglobe and EXCEL may lead to claims whose impact on the Corporation is not currently estimable. No assurance can be given that the aggregate cost of defending and resolving such claims, if any, will not materially adversely affect the Corporation's results of operations. Although some of Teleglobe's or EXCEL's agreements with manufacturers and others from whom it purchases products for resale contain provisions requiring such parties to indemnify Teleglobe or EXCEL under some circumstances, there can be no assurance that such indemnification arrangements will cover all of Teleglobe's or EXCEL's liabilities and costs related to claims by third parties related to the Year 2000 issue.

Other possible risks of the Year 2000 include the unforeseen failure of external services provided by key suppliers (specifically, suppliers of electrical power, heating, ventilation and air conditioning), local exchange carriers, inter-exchange and foreign carriers. More particularly, certain foreign carriers in less developed countries with which the Corporation is interconnected or exchanges traffic may not have the funds and/or the resources required to ensure Year 2000 compliance of their telecommunications network. These risks and the reasonability of their occurrence are currently being assessed.

In response to such risks, Teleglobe and EXCEL are evaluating different methods of addressing potential conditions or interruptions caused by the Year 2000, which may require tactical contingency planning as part of their Year 2000 Program. Teleglobe is in the process of assessing the completeness of the identified business risks in order to develop contingency plans. Because Teleglobe and EXCEL have not completed certain phases of their respective Year 2000 programs, they have not been able to forecast the total cost of contingency plans. At Teleglobe, contingency plans are being developed in conjunction with an external consulting firm and are expected to be completed by the third quarter of 1999. EXCEL has also begun a similar process and intends to finalize its contingency plans during the third quarter of 1999.

The Corporation currently believes that the Year 2000 will not create a significant interruption of its operations. However, if all issues relating to the Year 2000 are not properly identified, or tested, and if implementation, correction and replacement are not timely effected with respect to potential Year 2000 problems that are identified, there can be no assurance that the Year 2000 issue will not materially adversely affect the Corporation's business and its relationships with carriers, customers, vendors and other third parties. Additionally, there can be no assurance that the Year 2000 issues of other entities will not have a material adverse impact on the Corporation's various businesses, systems or results of operations.

Cautionary Statement Concerning Forward-Looking Statements

Certain information contained in this Management's Discussion and Analysis with respect to financial results and future events and trends, including, without limitation, the statements concerning Year 2000 issues set forth under "Year 2000 Readiness Disclosure", is forward-looking, based on the Corporation's estimates and assumptions and is subject to risks and uncertainties that could cause the Corporation's actual results to differ materially from the forward-looking statements contained in this Management's Discussion and Analysis. For those statements, the Corporation claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

Management's Report

The management of the Corporation is responsible for the preparation and integrity of the attached consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in Canada, as well as management's discussion and analysis. These statements necessarily include some amounts that are based on management's best estimates and judgment. Management considers that the statements present fairly the consolidated financial position of the Corporation, the results of its operations and the changes in its financial position. Financial information contained in management's discussion and analysis is consistent with the information contained in the consolidated financial statements.

To fulfill its responsibility, management developed and maintains systems of internal accounting controls and establishes policies and procedures designed to ensure the reliability of financial information and to safeguard assets. The internal control systems and financial records are subject to evaluation by internal auditors and by the external auditors during the examination of the consolidated financial statements.

The Board of Directors oversees management's performance of its financial reporting and internal control responsibilities. The Board of Directors carries out its responsibility with regard to the consolidated financial statements primarily through its Audit Committee.

The Audit Committee, which is composed exclusively of outside directors, meets regularly with the internal and external auditors, and with management, to discuss accounting policies and practices, internal control systems, the scope of audit work and to assess reports on audit work performed. The external and internal auditors have direct access to the Audit Committee, with or without the presence of management, to discuss results of their audits and any recommendations they have for improvements in internal controls, the quality of financial reporting and any other matters of interest. The consolidated financial statements have been reviewed and approved by the Board of Directors on the recommendation of the Audit Committee.

Charles Sirois
Chairman of the Board and Chief Executive Officer

Claude Séguin
Executive Vice President, Finance
and Chief Financial Officer

February 8, 1999

Auditors' Report

To the Shareholders of Teleglobe Inc.:

We have audited the consolidated balance sheet of Teleglobe Inc. as of December 31, 1998 and the related consolidated statements of operations, retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 1998 and the results of its operations and changes in financial position for the year then ended in accordance with generally accepted accounting principles in Canada.

We also reported separately to the shareholders of Teleglobe Inc. on consolidated financial statements for the same period prepared in US dollars and in accordance with generally accepted accounting principles in the United States of America.

The consolidated balance sheet as of December 31, 1997 and the consolidated statements of operations, retained earnings and changes in financial position for each of the years ended December 31, 1997 and 1996 were audited by Raymond Chabot Grant Thornton, who expressed an opinion without reservation on those consolidated financial statements in their report dated February 8, 1998.

Raymond Chabot Grant Thornton

Montréal, Canada
February 8, 1999

Raymond Chabot Grant Thornton
Chartered Accountants
General Partnership

Arthur Andersen & Cie

Arthur Andersen & Cie
Chartered Accountants
General Partnership

Consolidated Statements of Operations

For the years ended December 31, 1998, 1997 and 1996
(In millions of Canadian dollars, except share data)

	1998	1997	1996
Revenues			
Telecommunication	$ 2,079.2	$ 1,431.2	$ 999.4
Telecommunication revenues from related parties	517.3	556.7	563.3
Marketing services	15.4	–	–
Total revenues	2,611.9	1,987.9	1,562.7
Operating expenses			
Telecommunication and network	1,700.3	1,379.8	1,069.5
Selling, general and administrative	425.8	195.1	114.4
Depreciation and amortization	171.0	129.6	163.4
Unusual items	(14.3)	17.7	–
Total operating expenses	2,282.8	1,722.2	1,347.3
Operating income	329.1	265.7	215.4
Interest expense	49.5	43.0	46.2
Other income			
Investment income (loss)	0.7	(1.6)	(1.4)
Other	15.6	7.6	11.8
Total other income	16.3	6.0	10.4
Income from continuing operations before income taxes and extraordinary item	295.9	228.7	179.6
Provision for income taxes	96.5	110.3	72.0
Income from continuing operations before extraordinary item	199.4	118.4	107.6
Income from discontinued operations, net of income taxes of nil and $0.5 in 1997 and 1996, respectively	–	3.7	4.9
Gain on disposal of discontinued operations with no income tax impact	–	18.4	–
Income before extraordinary item	199.4	140.5	112.5
Extraordinary item, net of income taxes of $124.2	265.6	–	–
Net income (loss)	(66.2)	140.5	112.5
Preferred dividends	(6.8)	(6.8)	(6.8)
Net income (loss) to common shareholders	$ (73.0)	$ 133.7	$ 105.7
Basic earnings per share			
Continuing operations	$ 1.31	$ 0.89	$ 0.86
Discontinued operations, net	–	0.17	0.04
Extraordinary item, net	(1.81)	–	–
Net income (loss) to common shareholders	(0.50)	1.06	0.90
Basic weighted average common shares	146,654,929	125,757,054	116,595,410
Diluted earnings per share			
Continuing operations	$ 1.23	$ 0.85	$ 0.80
Discontinued operations, net	–	0.17	0.04
Extraordinary item, net	(1.81)	–	–
Net income (loss) to common shareholders	(0.50)	1.02	0.84
Diluted weighted average common shares	161,640,285	133,324,162	133,502,532
Dividends per common share	$ 0.33	$ 0.29	$ 0.23

The accompanying notes are an integral part of these consolidated financial statements.

Illustration: Marie-Hélène Sirois

Consolidated Balance Sheets

December 31, 1998 and 1997 *(In millions of Canadian dollars, except share data)*	1998	1997
ASSETS		
Current assets		
Cash and cash equivalents	**$ 121.5**	$ 95.8
Accounts receivable, net of allowance of $125.7 and $64.2 for 1998 and 1997, respectively	**1,050.7**	740.6
Accounts receivable from related parties	**84.1**	155.1
Deferred income tax	**28.9**	–
Other current assets	**75.5**	63.8
	1,360.7	1,055.3
Investments	**59.2**	19.2
Property, plant and equipment, net	**1,866.5**	1,267.0
Deferred income tax	**47.6**	–
Deferred charges and other	**265.1**	152.5
Intangibles, net	**5,473.0**	90.0
	$9,072.1	$2,584.0
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term credit facilities	**$ 100.0**	$ –
Accounts payable	**579.4**	376.9
Accrued liabilities	**642.5**	268.2
Accounts payable to related parties	**9.9**	44.4
Other current liabilities	**71.8**	31.0
Current maturities of long-term debt	**10.7**	9.8
	1,414.3	730.3
Long-term debt	**1,240.1**	605.5
Deferred credits	**38.3**	94.1
	2,692.7	1,429.9
Non-controlling interest	**0.2**	39.6
Commitments and contingencies		
Shareholders' equity		
Preferred shares		
First series, no par value, unlimited shares authorized, none issued and outstanding at December 31, 1998 (2,570,000 at December 31, 1997)	**–**	18.0
Third series, no par value, unlimited shares authorized, 5,000,000 issued and outstanding	**125.0**	125.0
Common shares		
Common shares, no par value, unlimited shares authorized, 253,139,738 issued and outstanding at December 31, 1998 (127,372,588 at December 31, 1997)	**6,036.8**	616.7
Retained earnings	**204.4**	341.2
Cumulative translation adjustment	**13.0**	13.6
	6,379.2	1,114.5
	$9,072.1	$2,584.0

On behalf of the Board:

______________________, Director

______________________, Director

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Retained Earnings

For the years ended December 31, 1998, 1997 and 1996
(In millions of Canadian dollars)

	1998	1997	1996
Retained earnings, beginning of year	**$341.2**	$245.4	$182.5
Net income (loss)	**(66.2)**	140.5	112.5
Cash dividends and related taxes	**(55.7)**	(43.3)	(33.8)
Excess of redemption price of common shares over stated value	**(14.9)**	(1.4)	(15.8)
Retained earnings, end of year	**$204.4**	$341.2	$245.4

The accompanying notes are an integral part of these consolidated financial statements.

Illustration: Marie-Hélène Sirois

Consolidated Statements of Changes in Financial Position

For the years ended December 31, 1998, 1997 and 1996 *(In millions of Canadian dollars)*	1998	1997	1996
Operating activities			
Income before extraordinary item	$ 199.4	$ 140.5	$ 112.5
Less: Income from discontinued operations	–	3.7	4.9
Gain on disposal of discontinued operations	–	18.4	–
Income from continuing operations	199.4	118.4	107.6
Adjustment to reconcile net income to net cash provided by operating activities of continuing operations:			
Depreciation and amortization	173.7	132.5	164.7
Write-down of investments	9.1	139.3	–
Gain on disposal of investments	(28.0)	(121.6)	–
Deferred credits and other items	(14.8)	12.5	(1.5)
Changes in non-cash operating balances, net of impact of acquisition	87.9	48.7	(58.5)
Net cash provided by activities of continuing operations	427.3	329.8	212.3
Investing activities			
Acquisition of EXCEL, net of cash acquired	(5,154.3)	–	–
Purchase of property, plant and equipment	(554.0)	(222.7)	(126.9)
Proceeds from sale of businesses and investments	286.5	20.0	7.4
Proceeds from disposal of property, plant and equipment	85.9	17.2	29.9
Net change in investments	(158.0)	25.2	(44.7)
Net change in other assets	(90.2)	(44.2)	(60.4)
Net cash used in investing activities	(5,584.1)	(204.5)	(194.7)
Financing activities			
Payment of long-term debt	(1,390.9)	(191.9)	(131.5)
Proceeds from issuance of long-term debt, net of issuance cost	1,141.9	65.6	245.9
Proceeds from short-term credit facility	100.0	–	–
Conversion of first series preferred shares	(18.0)	(74.6)	–
Payment of dividends	(55.4)	(43.0)	(33.5)
Net proceeds from issuance of common shares	248.0	76.3	2.8
Issuance of common shares for the acquisition of EXCEL	5,175.6	–	–
Repurchase of common shares	(18.4)	(1.7)	(21.1)
Other	(0.3)	(0.3)	(0.3)
Net cash provided by (used in) financing activities	5,182.5	(169.6)	62.3
Net cash used in discontinued operations	–	(20.1)	(1.0)
Net increase (decrease) in cash and cash equivalents	25.7	(64.4)	78.9
Cash and cash equivalents, beginning of year	95.8	160.2	81.3
Cash and cash equivalents, end of year	$ 121.5	$ 95.8	$ 160.2

The accompanying notes are an integral part of these consolidated financial statements.

(Amounts in millions of Canadian dollars, except share data)

1. Statutes, Nature of Operations and Regulatory Regime

a) Statutes and Nature of Operations

Teleglobe Inc., hereafter referred to as the "Corporation", is incorporated under the *Canada Business Corporations Act* and is a facilities-based carrier that provides international telecommunication services either directly or through its subsidiaries. These services, which include voice, data, Internet and value-added communications, are offered primarily on a wholesale basis, to carriers and Internet service providers on every continent. In addition, the acquisition of Excel Communications, Inc. ("EXCEL") allows the Corporation to provide retail services such as long distance, paging and, more recently, Internet services to both residential and commercial customers in the United States of America ("U.S.") (see Note 2).

Until October 1, 1998, the Corporation, through its subsidiary Teleglobe Canada Inc. ("TCI"), was the sole authorized provider of facilities-based telecommunication services between Canada and other countries, excluding the U.S. In 1997, as a result of Canada's commitment under the World Trade Organization agreement on basic telecommunication services ("WTO Agreement") of February 1997, the Government of Canada announced that TCI's mandate would expire on October 1, 1998 (see Note 5).

i) International Telecommunication Activities

The Corporation, through its Teleglobe Communications Corporation ("TCC") operations, earns revenues from international services provided through the telecommunications network of TCC. To a lesser extent, the Corporation also earns international service revenues from long distance telecommunications provided to both residential and commercial customers by EXCEL in the U.S. The revenues earned from TCC's international services, mainly voice and data, consist of charges to carriers for the routing of traffic to other countries. Also included are revenues from Internet connectivity, leased circuits, as well as broadcast and mobile services. The Corporation pays terminating charges (included in "Telecommunication and network" expenses) to other carriers to compensate them for their part in the distribution of telecommunications traffic.

ii) Long Distance and Marketing Service Activities

The Corporation, through its EXCEL operations, provides long distance, paging and, more recently, Internet services to both residential and commercial customers in the U.S. EXCEL has developed several marketing channels for its services, including direct sales to residential and commercial customers through independent representatives ("IRs"), dealers and internal sales personnel, as well as the direct mail marketing of several dial-around products. To provide its services, EXCEL is building a switch-based telecommunications network and is also leasing transmission lines from a variety of facilities-based and resale long distance carriers.

Marketing service revenues are primarily comprised of receipts pertaining to materials and services rendered by EXCEL to IRs and area coordinators ("ACs"). Except in certain states, IRs are required to make an initial refundable application deposit with EXCEL as an expression of commitment. There is no additional cost to participate. IRs have an option to purchase a start-up package, which includes a training class and training materials, business forms, promotional and presentation materials, ongoing technical and administrative support services, and monthly reports. If the start-up package is purchased, the application deposit requirement is waived. In addition, EXCEL offers training positions whereby ACs, certified by EXCEL, provide training to new IRs.

"Selling, general and administrative expenses" include marketing costs and the costs associated with providing teleservices and other support services for subscribers, with billing and collecting long distance and paging revenues, and with the information systems and personnel required to support EXCEL's operations. EXCEL expenses subscriber acquisition costs as incurred.

The Corporation expenses advertising and promotion costs in the period in which they are incurred. These include direct mail advertising and marketing costs relating to long distance products.

b) Regulatory Regime

i) Canadian Regulation

TCI is subject to regulation by the Canadian Radio-television and Telecommunications Commission ("CRTC").

TCI is regulated pursuant to Telecom Decision CRTC 96-2 under a form of price regulation which includes a price reduction commitment regime for telephone services and a price ceiling for non-telephone services for the period terminating on December 31, 1999, barring exceptional changes to TCI's operating environment. This regulatory framework also provides for tariff filings, approval procedures and financial monitoring. Prior to 1996, TCI was subject to rate-base/rate-of-return regulation.

1. Statutes, Nature of Operations and Regulatory Regime (continued)

On October 2, 1997, the CRTC issued Telecom Public Notice CRTC 97-34 in which the Commission requested proposals and comments on the regulatory regime (including the introduction of licensing requirements) that should apply to the provision of international telecommunication services, effective October 1, 1998, when TCI's exclusive mandate was scheduled to expire. This proceeding specifically included a review of routing restrictions and of the regulations applicable to TCI.

On October 1, 1998, the date when the Corporation's exclusive mandate officially ended, the CRTC issued Telecom Decision CRTC 98-17 which substantially changed the regulatory framework governing the provision of international services in Canada. In summary, the CRTC established a licensing regime which, among other things, prescribes a basic condition of license prohibiting the licensee from engaging in anti-competitive conduct. The regime also establishes a condition of license requiring service providers who operate facilities used in transporting basic telecommunications traffic between Canada and another country to file certain information as to the traffic they carry and the agreements and arrangements they enter into. The CRTC decision also eliminated the rules prohibiting the routing of Canada-Canada calls and Canada-overseas calls through the U.S., thereby removing all traffic routing restrictions. Finally, the CRTC maintained the regulatory regime that applies specifically to the Corporation except with respect to Canada-Canada and Canada-U.S. traffic.

ii) **U.S. Legislative and Regulatory Matters**

The Corporation's primary U. S. subsidiaries, Teleglobe USA Inc. ("TUSA") and EXCEL are subject to the Communications Act of 1934 ("Act"), as amended, and the regulatory jurisdiction of the Federal Communications Commission ("FCC"). In many states, state public utilities commissions also regulate the provision of telecommunication services. The U.S. Telecommunications Act of 1996 ("1996 Act") included substantial revisions to the Act which were intended to promote competition among and between local exchange carriers ("LEC's"), cable television operators, and long distance providers, and to establish a broad national telecommunications policy. Among other things, the 1996 Act permits entry of the Bell Operating Companies ("BOC's") into the long distance services business within their local exchange territories on their conformance to a specific set of criteria demonstrating that they have established practical opportunities for entry into their local markets by competing local carriers.

The FCC's implementation of the 1996 Act has resulted in significant litigation which has delayed the advent of local exchange competition in the U.S. Among these actions was the successful appeal of the FCC's 1997 order establishing baseline national rules pursuant to which incumbent LEC's are to make available the use of their networks by competitors. The appeal led to an order of the U.S. Court of Appeals in 1997 which interpreted the 1996 amendments to the Act in a way which greatly diminished the authority of the FCC to set national guidelines for local carrier interconnection, and was viewed as a setback to potential new competitors, including the Corporation.

On January 25, 1999, the United States Supreme Court reversed the appeals court decision and interpreted the 1996 Act as vesting broad authority in the FCC to adopt local exchange competition policy. The decision has been widely viewed as providing the FCC with important regulatory tools to promote the development of local exchange competition. It is not, however, possible to determine the extent to which the Supreme Court's order will accelerate the introduction of practical local exchange opportunities for the Corporation in particular markets.

On March 3, 1998, the FCC granted TUSA additional authority under Section 214 of the Act to provide international service between the U.S. and Canada, and beyond, using international transmission facilities owned by TUSA.

On May 8, 1998, the FCC granted authority to the Corporation to acquire the remaining 80% of Optel Communications Inc. ("Optel") that it did not already own. Optel holds the U.S. submarine cable landing license for the CANUS 1 system which extends between the U.S. and Canada. The Corporation already held the license for the Canadian landing.

2. Acquisition of EXCEL

On November 10, 1998, the Corporation, through one of its wholly-owned subsidiaries, acquired all issued and outstanding common shares of EXCEL by issuing 117,627,338 shares of the Corporation's common stock for a total consideration of $5,187.8 including acquisition costs. Each share of EXCEL was exchanged for 0.885 share of Teleglobe Inc. common shares. In addition, outstanding EXCEL employee stock options were converted at the same exchange factor into options to purchase approximately 8,277,075 shares of Teleglobe Inc. common shares and the exercise price per share with respect to each such converted option was adjusted to equal the exercise price under the original option divided by 0.885.

The acquisition has been accounted for under the purchase method of accounting and therefore the purchase price and acquisition costs were allocated to net assets acquired. Accordingly, the consolidated results of operations for the year ended December 31, 1998 include EXCEL's consolidated results of operations from November 10, 1998.

2. Acquisition of EXCEL (continued)

The allocation of the purchase price is as follows:	
Assets acquired (including intangibles of $1,412.6)	$ 2,615.3
Liabilities assumed	1,387.4
Net assets acquired	1,227.9
Goodwill	3,959.9
Total purchase consideration	$ 5,187.8

3. Significant Accounting Policies

a) Financial Statement Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. They include the accounts of the Corporation and its subsidiaries. All significant intercompany transactions and balances have been eliminated upon consolidation. Certain prior year amounts have been reclassified to conform to the current year presentation.

Investments in entities in which the Corporation does not have control, but has the ability to exercise significant influence over operating, investing and financial policies, are accounted for under the equity method. Under the equity method, investments originally recorded at cost are adjusted to recognize the Corporation's share of the net earnings or losses of the companies as they occur, rather than as dividends or as other distributions are received, limited to the extent of the Corporation's investment in, advances to, and guarantees for these investments. Investments in which the Corporation does not have the ability to exercise significant influence over operating, investing and financial policies are accounted for under the cost method.

TCI is the designated Canadian signatory to the International Telecommunications Satellite Organization ("INTELSAT") operating agreement. Periodically, TCI's ownership in this organization is adjusted to conform to its proportional use of the systems or such other level as it may elect, according to the terms of the operating agreement. TCI's share in this foreign joint venture is accounted for on a proportionate consolidation basis.

Until 1998, TCI was the Canadian signatory to the International Maritime Satellite Organization ("INMARSAT") and held a 33.3% interest in a joint venture which provided INMARSAT B&M global services (see Note 4). TCI's joint venture interests were accounted for on a proportionate consolidation basis.

TCI holds a 30.0% joint venture interest in its corporate office building, which is accounted for on a proportionate consolidation basis.

The Corporation participates in the ownership of five cable ships, with percentages varying from 25% to 45% through its subsidiary Teleglobe Marine (U.S.) Inc. ("TMI") under limited partnership agreements with a subsidiary of Tyco International Ltd. TMI's share of the partnerships is accounted for on a proportionate consolidation basis.

The Corporation and Orbital Sciences Corporation, a U.S. public corporation, have formed a joint venture called ORBCOMM Global, L.P. ("ORBCOMM") for the financing and operation of a digital satellite telecommunications system. The ORBCOMM™ system is designed to provide continuous low-cost coverage over most of the earth's surface for monitoring, tracking and messaging applications. The Corporation owns a 50% interest in ORBCOMM as a result of the indirect acquisition of an additional 15% interest in 1998 for $100.4. The Corporation's interest is accounted for on a proportionate consolidation basis.

Prior to May 1998, the Corporation held a 20% interest in Optel which was carried at cost. On May 15, 1998, the Corporation acquired all of the remaining shares outstanding of Optel for a cash consideration of $5.4. The purchase of the additional 80% has been accounted for under the purchase method of accounting. The consolidated results of operations for the year ended December 31, 1998 include Optel's financial results from May 15, 1998.

Until September 10, 1998, TCI held a 29.2% interest in Stratos Wireless Inc. ("Stratos"), which provides global mobile satellite voice and data communication services (see Note 4). TCI's interest was accounted for under the equity method.

On November 30, 1998, INTELSAT transferred certain assets and liabilities to its newly formed subsidiary New Skies Satellites N.V. ("NSS"). On the same date INTELSAT also distributed 90% of its shares in NSS to its signatories. Following this transaction, the Corporation owns a 1.84% interest in NSS.

b) Regulatory Principles

Prior to 1996, TCI services were regulated by the CRTC under a rate-base/rate-of-return methodology. In 1996, the CRTC revised the method of regulation for the Corporation. Instead of the rate-of-return regulation involving the recovery of costs through rates charged to customers, the CRTC approved an incentive form of regulation involving the setting of price caps. The impact of this change, which affects the allowance for funds used during construction, deferred income taxes and the rate stabilization account, was applied prospectively as of January 1, 1996.

Upon termination of its exclusive mandate as the sole provider of facilities-based overseas telecommunication services in Canada by the Government of Canada on October 1, 1998, and in light of continued trends in technological innovation and the introduction of significant competition in the international telecommunications market, TCI determined that it was appropriate to reflect the financial accounting effect of the completion of the deregulation process and adjust the net carrying values of its telecommunications assets at December 31, 1998 to reflect the assets' fair value (see Note 5).

c) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates and assumptions also affect revenues and expenses during the period reported. Actual results could differ from these estimates.

d) Revenue Recognition

In applying terms and conditions for revenue sharing with other carriers, the Corporation recognizes the international telecommunication revenues from and shares owed to carriers as services are rendered and estimates the amount of such revenues and shares which the carriers have not reported at year-end. International telecommunication revenues are stated before any allocation of the costs associated with these revenues.

Long distance telecommunication and marketing revenues are recorded when services are rendered. They are measured when long distance calls are completed and recorded net of an allowance for certain revenues which the Corporation estimates will ultimately be refunded, rebated, uncollectible or unbillable.

Revenues from other telecommunication services are recognized as the services are provided.

Under the terms of cable maintenance and repair agreements, revenues from cable ship interests consist of a return on capital and recovery of depreciation expenses while the remaining standing and running costs are reimbursed.

Until December 1997, revenues from the sale of cable capacity were recognized using the venture accounting method, whereby all related costs and revenues were recorded in inventory until the total project was completed.

e) Foreign Currency Translation

Foreign currency denominated balances of the Corporation, as well as assets and liabilities of foreign subsidiaries that are considered to be fully integrated operations, are translated into Canadian dollars, the currency of measurement, using the temporal method. Accordingly, monetary assets and liabilities are translated using the exchange rates in effect at the balance sheet date, and revenues and expenses as well as non-monetary assets and liabilities are translated at the average exchange rate of the month in which the transaction occurs or at the rates of exchange prevailing when the assets were acquired or the liabilities incurred. Exchange gains or losses on monetary items are included in income. Any unrealized foreign exchange gains or losses relating to monetary items with fixed or ascertainable lives extending beyond one year from the balance sheet date are deferred and amortized over the remaining period.

Financial statements of self-sustaining foreign operations are translated into Canadian dollars using the current rate method. Accordingly, assets and liabilities are translated at the exchange rates in effect at the balance sheet date, and revenues and expenses are translated at the average exchange rate of the month in which the transaction occurs. Unrealized exchange gains or losses on the translation of the financial statements are deferred and presented separately on the balance sheet under "Shareholders' equity" as "Cumulative translation adjustment".

As a result of telecommunication revenues and a significant portion of operating expenses and assets being denominated in U.S. dollars and the increasing international focus of the Corporation's operations, the U.S. dollar will become the currency of measurement and the reporting currency effective January 1, 1999.

f) Derivative Financial Instruments

The Corporation uses derivative financial instruments to reduce its exposure to market risks from changes in interest rates and foreign exchange rates. The Corporation has designated its interest rate swaps as hedges and records the interest expense based on the agreements' fixed rates.

The Corporation hedges its foreign exchange exposure through a variety of strategies and financial instruments, including forward exchange contracts, foreign currency swap contracts, and foreign currency option contracts. The Corporation uses these strategies to hedge both revenues and operating expenses and the working capital of its international subsidiaries, as applicable.

3. Significant Accounting Policies (continued)

Premiums paid or received pursuant to exchange contracts are deferred and amortized over the term of the contracts. Forward exchange contracts and premiums paid or received are accounted for at cost. Realized and deferred gains or losses on these contracts are recognized in the consolidated statement of operations in the same year as the gains or losses resulting from corresponding hedged positions are recorded. The majority of the Corporation's foreign currency contracts mature within 12 months. There were none outstanding as of December 31, 1998.

g) Income Taxes

The Corporation uses the tax allocation basis of accounting for income taxes. Deferred income taxes result mainly from timing differences between the tax and accounting value of property, plant and equipment.

h) Cash and Cash Equivalents

Cash equivalents consist of short-term deposits.

i) Accounts Receivable

Accounts receivable are net of an allowance for doubtful accounts and anticipated telecommunication revenue adjustments. The Corporation establishes an allowance for doubtful accounts and anticipated telecommunication revenue adjustments based on factors surrounding the credit risk of specific customers, as well as historical trends and other information.

j) Concentration of Credit Risk

The Corporation, through its EXCEL operations, has agreements with LEC's, which provide billing and collection services to the majority of EXCEL's subscribers. EXCEL's subscribers are primarily residential and commercial subscribers and are not concentrated in any specific geographic region of the U.S. As of December 31, 1998, approximately 21.5% of the Corporation's accounts receivable were due from LEC's. In addition, the Corporation is exposed to credit risks for the accounts receivable from Stentor Canadian Network Management (See Note 17). The concentration of risk from other customers is limited by the large number of customers.

k) Property, Plant and Equipment

Property, plant and equipment, including items financed through capital leases, are recorded at cost including, when applicable, salaries, employee benefits and interest costs incurred to finance construction.

The cost of construction in progress is transferred to the appropriate asset category, based on the nature of the project, as construction projects are completed and/or equipment is placed in service.

Investments in cable systems correspond to the Corporation's share of the cost of the systems as well as indefeasible rights of use which it holds in international cables held by third parties.

Depreciation is calculated using the straight-line method over the expected useful life of the property, plant and equipment. The Corporation periodically reviews and adjusts the useful lives assigned to property, plant and equipment to ensure that depreciation charges provide appropriate recovery of capital costs over the estimated physical and technological lives of the assets.

The estimated useful lives of property, plant and equipment are as follows (See Note 5):

Telecommunications equipment	5 to 35 years
Buildings, plant and equipment	3 to 40 years
Cable systems	15 years
Satellite systems	7 to 13 years
Computer software and equipment	3 to 5 years
Cable ships and submersible craft	7 to 21 years
Leasehold improvements and other	Term of the lease

Each year, the Corporation assesses the impairment of property, plant and equipment, and when events or changes in circumstances indicate that the carrying value may not be recoverable, a determination of impairment is made based on estimates of future cash flows.

Any gain or loss resulting from the sale or retirement of property, plant and equipment is charged to income for the year. Maintenance, repairs and reengineering costs are charged to expense as incurred.

3. Significant Accounting Policies (continued)

l) Intangibles

Goodwill, which represents the excess purchase price over the fair value of the underlying net assets of acquired subsidiaries and businesses at the date of acquisition, and certain identifiable intangibles are amortized over periods ranging from 5 to 40 years on a straight-line basis. The accumulated amortization on intangibles was $75.1 and $30.8 as of December 31, 1998 and 1997, respectively.

Each year, the Corporation assesses the impairment of intangibles, and when events or changes in circumstances indicate that the carrying value may not be recoverable, a determination of impairment is made based on estimates of future cash flows (see Note 5).

m) Deferred Charges

The following deferred charges are recorded at cost and amortized using the straight-line method over the following periods:

Fiber-optic capacity	Term of the leases (between 9 and 10 years)
Franchise agreements	Term of the agreements (between 15 and 22 years)
Deferred development costs	3 years, from start of commercial operations
Long-term debt issuance costs	Term of the debt (between 8 and 30 years)
Deferred exchange loss	Term of the debt (between 8 and 30 years)

Deferred development costs consist of expenditures incurred in new businesses prior to the commencement of commercial operations. Revenues realized during the pre-operating period are recorded as a reduction of the deferred expenditures.

Each year, the Corporation assesses the impairment of deferred charges, and when events or changes in circumstances indicate that the carrying value may not be recoverable, a determination of impairment is made based on estimates of future cash flows (see Note 5).

n) Pension Plans

The Corporation has various contributory and non-contributory defined benefit pension plans and defined contribution retirement plans. For defined benefit pension plans, current service costs are recorded in income in the year the services are rendered, while past service costs as well as experience gains and losses which have not been recorded in income are amortized over the average remaining service life of the active employee group covered by the plans. The difference between the contributions paid and plan expenses is included under "Deferred charges and other" on the balance sheet.

4. Unusual Items

Unusual items for the years ended December 31, 1998 and 1997 are summarized as follows:

	1998	1997
Gain on Sale of interests in INMARSAT and Stratos Wireless Inc.	$(23.4)	$ –
Write-down of Investments	9.1	–
Gain on Sale of CGI Group Inc. Shares	–	(121.6)
Globesystem Atlantic™ Impairment	–	92.8
Optel Impairment	–	22.0
Odyssey™ Project Abandonment	–	24.5
	$(14.3)	$ 17.7

a) Gain on Sale of interests in INMARSAT and Stratos Wireless Inc.

On September 10, 1998, the Corporation sold the assets comprising all of its INMARSAT mobile satellite communication services for a total consideration of $84.7 and recorded a gain on disposal of $23.4. These assets include the Corporation's interest and signatory status in INMARSAT, its interest in a joint venture which provides INMARSAT B&M global services, its interest in the SATELLITE AIRCOM consortium as well as two tracking, telemetry and command stations used in the positioning and tracking of INMARSAT satellites (See Note 3a). As part of this transaction, the Corporation also sold its 29.2% interest in Stratos.

4. Unusual Items (continued)

b) Write-down of Investments

In the third quarter of 1998, the Corporation wrote down to its net realizable value, its investment in Jazz Media Network and other projects undertaken by Teleglobe Media Enterprises. Accordingly, a charge of $9.1 was applied against income.

c) Gain on Sale of CGI Group Inc. Shares

On December 18, 1997, the Corporation reached an agreement with an underwriting syndicate to sell all its CGI Group Inc. ("CGI") Class A subordinate shares, which the Corporation had acquired on the disposal of its Insurance Systems operations, for a total consideration of $241.6, net of related expenses, and recorded a gain on disposal of $121.6 (See Note 6). At the beginning of 1998, the agreement was modified and BCE Inc. ("BCE") became a purchaser of 6 million of these shares. The transaction closed in early January 1998.

d) Globesystem Atlantic Impairment

In the fourth quarter of 1997, the Corporation abandoned the venture accounting method previously applied to the inventory capacity it held for resale in the Globesystem Atlantic cable system, as the loss on the project could be estimated. A non-cash charge of $92.8 was recorded in 1997.

e) Optel Impairment

In 1997, the Corporation wrote down to its net realizable value its net investment, including a loan receivable, in Optel, a company involved with the sale of cable system capacity in Globesystem Atlantic, in which the Corporation owned a 20% equity interest. Accordingly, a non-cash charge of $22.0 was recorded in 1997.

f) Odyssey Project Abandonment

In December 1997, the Odyssey project was abandoned following the withdrawal of the Corporation's partner. Capitalized costs of $24.5 were charged to income.

5. Extraordinary Item

Following the expiry of TCI's exclusive mandate as the sole provider of facilities-based overseas telecommunication services in Canada on October 1, 1998, the Corporation recorded a non-cash charge in the fourth quarter of 1998, related to a write-down in the carrying value of certain assets of $389.8. Management's estimate of the Corporation's fair value of operating assets resulted in a reduction in the book value of the assets as follows:

Write-down of property, plant and equipment	$334.1
Write-down of intangibles	24.2
Write-down of deferred charges and other	31.5
	$389.8

The fair value of the assets was determined by estimating the present value of future cash flows to be generated from those operations that were subject to the exclusive mandate on facilities-based overseas telecommunications in Canada. In light of continued trends in technological innovation and asset replacement and the introduction of significant competition in the international telecommunications market, the Corporation reviewed and adjusted the estimated useful lives of certain telecommunications equipment previously ranging from 5 to 15 years, to 5 to 7 years, and cable systems previously ranging from 14 to 20 years, to 15 years.

6. Discontinued Operations

In the third quarter of 1997, the Corporation adopted a plan to dispose of its Insurance Systems operations. On October 22, 1997, the Corporation sold all its shares in its Insurance Systems operations to CGI for a cash consideration of $20.0 and 5.3 million CGI Class A subordinate shares. These shares were subsequently split on a two-for-one basis.

The net income of the Insurance Systems operations for the years ended December 31, 1997 and 1996 has been reclassified under discontinued operations in the consolidated statements of operations. Revenues from discontinued operations were $138.3 and $151.5 in 1997 and 1996, respectively.

7. Income Taxes

Following is a reconciliation between taxes computed by applying the Canadian statutory federal and provincial income tax rate of 39.2% to income from continuing operations before income taxes and extraordinary item, and income taxes provided in the consolidated statements of operations:

	1998	1997	1996
Amounts computed at statutory rates	**$116.0**	$ 90.6	$68.2
Increase (decrease) resulting from:			
Prior years' losses utilized during the year, for which no tax benefit was recorded	**(32.3)**	–	(3.1)
Amortization of goodwill	**8.2**	1.0	1.6
Disallowed depreciation and other	**1.0**	5.8	4.9
Current year losses for which no tax benefit was recorded	**0.6**	5.3	–
Current year unusual items for which no tax benefit was recorded	**3.5**	7.6	–
Other	**(0.5)**	–	0.4
	$ 96.5	$110.3	$72.0

The components of the provision for income taxes are as follows:

	1998	1997	1996
Canadian			
Current taxes	**$ 89.1**	$101.2	$72.4
Deferred taxes	**9.2**	8.8	(1.0)
	98.3	110.0	71.4
Foreign			
Current taxes	**(1.8)**	0.3	0.6
	$ 96.5	$110.3	$72.0

As of December 31, 1998, cumulative undistributed earnings from foreign subsidiaries were primarily related to EXCEL. No provision for Canadian income taxes has been made since the Corporation considers the undistributed earnings to be permanently invested in the U.S.

No recognition has been given to potential income tax savings which may result from corporate entities in the group claiming, for income tax purposes, net operating losses of limited use amounting to $65.7 which will expire in varying annual amounts through 2012, and net capital losses of limited use amounting to $113.3, of which $92.4 has no expiry date and the balance of $20.9 will expire in 2002.

8. Accounts Receivable

	1998	1997
Trade accounts receivable	**$1,036.4**	$489.4
Receivable from the sale of CGI shares	–	246.6
Current portion of long-term receivables	**14.3**	4.6
	$1,050.7	$740.6

9. Investments

	1998	1997
Investments at equity	**$36.8**	$13.9
Investments at cost	**22.4**	5.3
	$59.2	$19.2

10. Investments in Joint Ventures

The Corporation's consolidated financial position and results of operations include the impact of the joint ventures, as follows:

	1998	1997
Current assets	$ 27.9	$ 51.5
Long-term assets	576.5	487.9
Current liabilities	61.7	38.6
Long-term liabilities	161.9	155.9
Revenues	88.6	74.6
Operating expenses	55.7	45.1
Net income	32.9	29.5

The following table provides the summarized changes in financial position from operating, investing and financing activities of the joint ventures.

	1998	1997
Net cash provided by activities of continuing operations	$ 92.3	$ 49.7
Net cash used in investing activities	(134.9)	(57.8)
Net cash used in financing activities	(7.2)	(18.3)
Decrease in cash and cash equivalents	$ (49.8)	$(26.4)

11. Property, Plant and Equipment

	1998		1997	
	Cost	Accumulated amortization	Cost	Accumulated amortization
Land	$ 15.5	$ –	$ 7.7	$ –
Telecommunications equipment	702.0	470.9	585.2	349.0
Buildings, plant and equipment	316.5	114.6	235.2	74.3
Cable systems	1,037.8	364.8	639.4	176.4
Satellite systems	375.1	84.7	155.4	64.2
Computer software and equipment	192.2	45.1	44.9	24.8
Cable ships and submersible craft	113.0	45.2	112.9	37.1
Leasehold improvements and other	26.6	7.1	13.4	4.8
Construction in progress	220.2	–	203.5	–
	$2,998.9	$1,132.4	$1,997.6	$ 730.6
Property, plant and equipment, net	$1,866.5		$1,267.0	

Total interest cost was $52.2 and $47.7 in 1998 and 1997, respectively. Of these amounts, $2.7 and $4.8 have been capitalized as property, plant and equipment in 1998 and 1997, respectively.

12. Deferred Charges and Other

	1998	1997
Fiber-optic capacity	$ 13.3	$ 52.2
Franchise agreements	54.1	–
Deferred development costs	102.1	45.9
Long-term receivables	40.6	18.8
Prepaid pension asset	16.4	13.0
Long-term debt issuance cost	7.6	9.9
Deferred exchange loss	16.7	10.2
Other	14.3	2.5
	$265.1	$152.5

Illustration: Marie-Hélène Sirois

13. Short-term Credit Facilities

a) Operating Line of Credit

In the course of its operations, TCI can avail itself of a renewable term credit facility for a maximum of $20.0. This unsecured facility is repayable at any time and bears interest at rates based on either the rate of bankers' acceptances plus 0.25% or bank prime rate for amounts drawn in Canadian dollars, or on LIBOR (London Interbank Offered Rate) plus 0.25% or the U.S. base rate for amounts drawn in U.S. dollars. TCI can also issue letters of credit at a cost of 0.25%.

The operating line of credit is for a one-year period. Six months prior to maturity, the lenders may agree to extend the maturity date for an additional six-month period.

b) Promissory Notes

TCI is authorized to issue up to $150.0 of promissory notes (commercial paper) which are supported by a revolving credit facility of up to $100.0. This unsecured facility is repayable at any time and bears interest at rates based on either the rate of bankers' acceptances plus 0.25% or bank prime rate for amounts drawn in Canadian dollars, or on LIBOR plus 0.25% or the U.S. base rate for amounts drawn in U.S. dollars.

At December 31, 1998, TCI has $100.0 of promissory notes outstanding.

The revolving credit facility is for a one-year period. Six months prior to maturity, the lenders may agree to extend the maturity date for an additional six-month period.

14. Long-term Debt

	1998	1997
Teleglobe Canada Inc.		
Debentures, 8.00%, maturing in 2026	$ 100.0	$100.0
Debentures, 8.35%, maturing in 2003	125.0	125.0
Debentures, 8.85%, maturing in 2002	125.0	125.0
Share of INTELSAT bonds (US$19.5 in 1998; US$15.5 in 1997), 6.625% to 8.375%, maturing in 2000 to 2005	29.9	22.2
Share of INMARSAT long-term debt under capital lease agreements (US$7.0 in 1997) 5.0% to 6.0%, maturing from 2002 to 2006	–	10.0
	379.9	382.2
Teleglobe Marine (U.S.) Inc.		
Senior notes, (US$53.6 in 1998; US$56.3 in 1997), 7.05%, maturing in 2013	82.5	80.5
Subordinated notes, (US$18.0 in 1998; US$20.5 in 1997), 7.12%, maturing in 2004	27.6	29.4
	110.1	109.9
EXCEL		
Credit facility (US$407.0), effective rate of 6.18%, maturing in 2002	625.8	–
Other	3.4	–
	629.2	–
Teleglobe Mobile Partners		
Share of ORBCOMM Global, L.P., (US$85.0 in 1998 and in 1997) 14.0% senior notes due in 2004	130.7	121.6
Other	0.9	1.6
Total long-term debt	1,250.8	615.3
Less: Current portion	10.7	9.8
	$1,240.1	$605.5

a) Teleglobe Inc. – Credit Facility

The Corporation has a credit facility of $365.0 (or U.S. dollar equivalent) with a syndicate of Canadian financial institutions that matures in 2002. The facility is unsecured and is divided in two tranches:

- A revolving-term credit facility of up to $345.0 (or U.S. dollar equivalent) made available for general corporate purposes;
- A revolving-term credit facility of up to $20.0 (or U.S. dollar equivalent) made available to the Corporation for general working capital purposes.

14. Long-term Debt (continued)

Interest rates on this facility are based on bankers' acceptances plus 0.22% or bank prime rate for drawdowns in Canadian dollars, or on LIBOR plus 0.22% or U.S. base rate for drawdowns in U.S. dollars. The Corporation can also issue letters of credit at a cost of 0.22%.

At December 31, 1998 and 1997, this credit facility was unused.

b) Teleglobe Canada Inc.

i) Term Credit Facility

TCI had a term credit facility of $49.0 with Canadian financial institutions. This non-revolving reducing-term facility was repayable in quarterly installments of $0.5 until expiration in 2001. In August 1997, the credit facility was converted to a revolving reducing-term facility by an amendment to the original credit agreement. The credit facility bears interest at rates based either on bankers' acceptances plus 1.375%, bank prime rate plus 0.50% or the lenders' cost of loans plus 1.375%. The facility is secured by TCI's shares in 1000 de La Gauchetière West Building Inc. for a principal amount of $59.0 plus interest on such amount, compounded annually at the rate of 20% per annum. As of December 31, 1998 and 1997, this term credit facility was unused.

ii) Debentures

The 8.00%, 8.35% and 8.85% debentures issued in 1996, 1993 and 1992, respectively are unsecured and redeemable at any time by TCI. They were each issued under a trust indenture providing for the creation of a debenture in the principal amount of $300.0.

c) Teleglobe Marine (U.S.) Inc. – Senior and Subordinated Notes

Teleglobe Marine (U.S.) Inc. senior and subordinated notes, 7.05% and 7.12%, are secured by an interest in five cable ships which are owned through limited partnerships with a subsidiary of Tyco International Ltd.

d) EXCEL

Borrowings under this US$1,000.0 (CDN$1,537.5, at December 31, 1998) credit facility are available for general corporate purposes including acquisitions and are subject to various financial covenants. The facility is secured by the common shares of various subsidiaries of EXCEL. The interest rate on the credit facility is based on EXCEL's prevailing debt ratio and ranges on a Eurodollar (LIBOR) option from a spread of 0.625% to 1.75%, and on a Base (Prime) Rate option from a spread of 0% to 0.50%. Total borrowings availability under the credit facility reduces to US$800.0 (CDN$1,230.0, at December 31, 1998) on September 30, 2000, and to US$500.0 (CDN$768.8, at December 31, 1998) on September 30, 2001, and the credit facility expires on September 30, 2002.

e) Teleglobe Mobile Partners – Senior notes

In 1996, ORBCOMM issued US$170.0 (CDN$261.4, at December 31, 1998) of 14% senior notes, due in 2004, with revenue participation interest equal to 5.0% of the ORBCOMM system revenues. The notes are fully and unconditionally guaranteed on a joint and several basis by the joint venture partners including Teleglobe Mobile Partners ("TMP"), an indirect subsidiary of the Corporation. The guarantees are non-recourse to the shareholders and partners of the guarantors.

f) Long-term Debt Maturities

1999	$ 10.7
2000	15.2
2001	10.3
2002	766.1
2003	134.5
Thereafter	314.0
	$1,250.8

A portion of long-term debt is subject to interest rate swaps as described in Note 18 – Financial Instruments.

Interest expense on long-term debt amounted to $46.9 in 1998, $45.1 in 1997 and $53.0 in 1996. The Corporation is required to and did maintain certain financial ratios under its various loan agreements, both on a consolidated and unconsolidated basis.

15. Share Capital

The Corporation is authorized to issue an unlimited number of common shares, Class A non-voting shares and preferred shares, all without nominal or par value. A two-for-one stock split was effected on the common shares on June 15, 1998. Accordingly, all information relating to common shares, including per share data, for the current and prior periods has been restated to reflect the stock split retroactively.

15. Share Capital (continued)

The rights attached to the Class A non-voting shares are identical to those of the common shares except for the fact that they are non-voting. At December 31, 1998 and 1997, there were no Class A non-voting shares outstanding.

The first series preferred shares are non-voting and convertible at any time, at the option of the holder, into an equal number of common shares. No dividend may be declared on the common shares and Class A non-voting shares unless an equal and rateable dividend has been declared on the first series preferred shares. The holders of first series preferred shares are entitled to receive capital and any dividends declared thereon before holders of common shares and Class A non-voting shares in the event of liquidation, but otherwise the shares rank equally with the common shares. The first series preferred shares were deemed to be equivalent to common shares for purposes of calculating earnings per share. In June 1998, all of the outstanding first series preferred shares were converted into an equal number of common shares. A two-for-one stock split was effected on the first series preferred shares on June 15, 1998. Accordingly, all information relating to the first series preferred shares for the current and prior periods has been restated to reflect the first series preferred shares stock split retroactively.

The second series preferred shares entitled shareholders to fixed cumulative dividends at a rate of 8% per annum. The shares were non-voting and convertible at any time based on a conversion price of $10.75 per common share. They were retractable on May 1, 1997 and redeemable from May 2, 1997 at a price of $25.00 per share. During 1997, all such outstanding shares were converted or redeemed. When issued and outstanding, the second series preferred shares were classified as compound instruments.

The third series preferred shares entitle shareholders to fixed cumulative dividends at a rate of 5.4% per annum. The shares are non-voting and are, at the Corporation's option on or after April 1, 2001, redeemable for cash at $25.00 per share or convertible into common shares of the Corporation determined by dividing $25.00 by the greater of $3.00 and 95% of the weighted average trading price of the common shares at the time of conversion. On or after May 1, 2001, subject to the preemptive right of the Corporation to redeem for cash or to find substitute purchasers at $25.00 per share, the shares are convertible at the option of the holder into common shares of the Corporation based on the same formula used for redemption. At any time, the Corporation may offer shareholders the right to convert into a further series of preferred shares on a one-for-one basis.

Share capital issued and outstanding and changes in share capital are as follows:

	Number	Amount
First series preferred shares		
Balance, December 31, 1997	2,570,000	$ 18.0
Conversion to common shares	(2,570,000)	(18.0)
Balance, December 31, 1998	–	$ –
Third series preferred shares	5,000,000	$ 125.0
Common shares		
Balance, December 31, 1995	113,968,888	$ 542.8
Changes during 1996		
Exercise of options	389,178	2.8
Conversion of second series preferred shares	73,078	0.4
Repurchase for cash	(1,111,400)	(5.2)
Balance, December 31, 1996	113,319,744	540.8
Changes during 1997		
Exercise of options	254,090	1.7
Conversion of second series preferred shares	13,874,190	74.6
Repurchase for cash	(75,436)	(0.4)
Balance, December 31, 1997	127,372,588	616.7
Changes during 1998		
Issuance of common shares for EXCEL acquisition	117,627,338	5,175.6
Issuance of common shares	5,400,000	218.2
Exercise of options	883,012	11.8
Conversion of first series preferred shares	2,570,000	18.0
Repurchase for cash	(713,200)	(3.5)
Balance, December 31, 1998	253,139,738	$6,036.8
Common shares reserved for:		
Options, issued to employees and directors at prices ranging from US$0.50 per share (CDN$0.77, at December 31, 1998) to US$29.61 per share (CDN$45.53, at December 31, 1998), exercisable by installments over periods extending to 7 years (there were 6,054,292 options exercisable at December 31, 1998)	14,252,431	

16. Pension Plans

The Corporation and certain of its subsidiaries have contributory and non-contributory defined benefit plans which provide pensions based on length of service and average earnings. Additionally, under a program discontinued in April 1995, the retiring employees of TCI are paid a benefit based on unused sick leave and length of service.

In addition to these pension plans, the Corporation and certain of its subsidiaries maintain capital accumulation plans qualifying under the provisions of Section 401(k) of the Internal Revenue Code enabling qualified employees to contribute on a tax deferred basis.

Actuarial reports prepared during the year, which were based on projections of employees' compensation levels to the time of retirement, indicate that the present value of accrued pension benefits as of December 31, 1998 was $113.2 ($110.4, as of December 31, 1997) and that the net assets available to provide for these benefits, at adjusted market value as of December 31, 1998, were $170.1 ($146.6, as of December 31, 1997).

The cumulative difference of $16.4 as of December 31, 1998 ($13.0, as of December 31, 1997) between the funding contributions and the amounts expensed is included under "Deferred charges and other" on the consolidated balance sheet. The pension expense was $2.0, $3.8 and $2.7 for 1998, 1997 and 1996, respectively.

17. Related-party Transactions

The Corporation concluded the following transactions at exchange value with related parties in the normal course of business.

Party	Nature of transaction with the related party	Classification in the Corporation's consolidated financial statements	1998	1997	1996
BCE and its affiliates	Equipment leasing, acquisition of services, financing fees and other	Operating expenses, property, plant and equipment, and other current assets	**$ 18.3**	$ 13.1	$ 11.2
Joint Ventures	Sales of equipment	Property, plant and equipment	**(1.6)**	(4.2)	(3.1)
	Sales of services	Operating expenses	**(9.1)**	(9.2)	(6.6)
	Acquisition of services	Operating expenses	**35.4**	25.0	21.1
	Rental of head office premises	Operating expenses	**10.7**	11.3	10.9
Company subject to significant influence	Management services	Operating expenses	**0.3**	1.1	0.5
	Sales of services	Telecommunication revenues from related parties	**1.1**	0.8	1.1
	Acquisition of services	Telecommunication revenues from related parties	**(0.8)**	(1.7)	(1.2)
Stentor Canadian Network Management	Sales of services	Telecommunication revenues from related parties	**517.0**	557.6	563.4
	Acquisition of services	Operating expenses	**49.5**	72.1	83.5
	Acquisition of services	Deferred charges and other	**19.1**	–	–
	Lease of domestic fiber-optic capacity	Deferred charges and other	**8.9**	14.8	20.0
Stentor Resource Centre Inc.	Lease of domestic fiber-optic capacity	Deferred charges and other	**–**	30.4	–

Illustration: Marie-Hélène Sirois

17. Related-party Transactions (continued)

Amounts owed to or receivable from related parties as of December 31, were as follows:

Party	Classification in the Corporation's consolidated financial statements	1998	1997
BCE and its affiliates	Accounts payable to related parties	$ 1.3	$ 0.9
Joint Ventures	Accounts payable to related parties	8.6	3.0
Company subject to significant influence	Accounts payable to related parties	–	2.7
Stentor Canadian Network Management	Accounts receivable from related parties	84.1	155.1
	Accounts payable to related parties	–	7.4
Stentor Resource Centre Inc.	Accounts payable to related parties	–	30.4

a) BCE and its affiliates

Bell Canada, Newtel Enterprises Limited, Northwestel Inc., Télébec Ltée and Northern Telephone Limited are subsidiaries of BCE and provide, either directly or through subsidiaries, telephone services in Ontario, Québec, Newfoundland, British Columbia, the Yukon and the Northwest Territories. New Brunswick Telephone Company Limited, Maritime Tel and Tel Limited and Island Telephone Company Limited are associated with BCE and provide telephone services in New Brunswick, Nova Scotia and Prince Edward Island, respectively.

Five of the companies noted above have entered into an agreement with TCI for the provision of telecommunication services. A significant portion of income relating to foreign traffic originating in Canada is generated by such companies under the terms of such agreements. Moreover, TCI compensates such companies for international traffic carried in Canada.

TCI has transactions with a telecommunications company in the BCE Group, Bell Canada, either directly or indirectly through Stentor. Moreover, TCI transacts with a manufacturer in the BCE Group, Northern Telecom Canada Limited.

b) Joint Ventures

TCI has reached various agreements with BCE regarding the operation of an office building. TCI uses the satellite space segments of the INTELSAT joint venture.

18. Financial Instruments

The Corporation operates internationally and is therefore exposed to market risks related to foreign currency fluctuations. To reduce these risks, it uses derivative financial instruments such as forward exchange contracts, foreign currency swap contracts and foreign currency denominated options, principally in U.S. dollars and in special drawing rights. To manage risks related to interest rates, the Corporation uses interest rate swaps. It does not hold or issue derivative financial instruments for commercial or speculative purposes. Derivative financial instruments are subject to standard credit terms and conditions, financial controls, management and risk monitoring procedures.

a) Credit Risks

The Corporation is exposed to credit risks in the event where third parties fail to perform their obligations under derivative financial instruments. The Corporation does not have any additional guarantees or security regarding derivative financial instruments with a credit risk. However, to reduce these risks, the Corporation diversifies its exchange contracts and interest rate swaps by dealing with financial institutions having a credit rating at least equal to its own. Accordingly, management does not foresee that the parties with which it transacts financial instruments will fail to fulfill their obligations given their high creditworthiness.

b) Foreign Currency Risk

The Corporation uses derivative financial instruments to hedge its revenues, expenses and monetary items recorded in foreign currencies when the probability of their realization is high and their major expected characteristics and execution conditions are identified. Such revenues, expenses and monetary items are recognized within one year. The duration of derivative financial instruments is less than one year. Unrecognized gains or losses on these contracts are determined using market rates prevailing at the balance sheet date, which are obtained from the Corporation's financial institutions, and are as follows:

	1998		1997	
	Gains	Losses	Gains	Losses
Recognition within one year	$ –	$ –	$ –	$ 1.7

18. Financial Instruments (continued)

c) Interest Rate Risk

The Corporation concluded interest rate swaps for a par value of $100.0 with several financial institutions for periods ending in March 2000 ($50.0) and February 2002 ($50.0). In return, it will, on a semi-annual basis, receive an average fixed interest rate of 5.365% and pay interest based on a three-month bankers' acceptance rate. As of December 31, 1998, the average bankers' acceptance rate relating to the Corporation's swaps was 5.072% (4.283% in 1997).

d) Fair Value of Financial Instruments

The fair value of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and short-term credit facilities is comparable to the carrying amount thereof, given as they will mature shortly.

The fair value of long-term debt is determined by discounting future cash flows using rates representing those which the Corporation could currently obtain, at market rates, for loans with similar terms, conditions and maturities.

The fair value of various derivative financial instruments is determined based on market rates prevailing at the balance sheet date obtained from the Corporation's financial institutions for similar financial instruments.

As at December 31, the carrying amount of all financial instruments was similar to their fair value, with the following exceptions:

	1998		1997	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liability:				
Long-term debt	$1,250.8	$1,321.1	$ 615.3	$ 681.3
Off balance sheet instruments:				
Forward exchange contracts	–	–	71.5	71.0
Foreign currency swap contracts	–	–	–	0.3
Interest rate swap contracts	–	0.9	–	0.4

19. Commitments and Contingencies

a) Contracts for Services and Operating Leases

The Corporation has the following commitments under contracts for services and operating leases for property, plant and equipment:

1999	$304.8
2000	116.3
2001	86.9
2002	75.9
2003	69.3
Thereafter	232.3
	$885.5

b) Transmission Line Leases

The Corporation, through its EXCEL subsidiary, leases transmission lines from a variety of facilities-based and resale long distance carriers. The Corporation's contracts with these entities typically have terms ranging from 12 to 60 months. The Corporation supplements its leased "on-network" capacity with "off-net" services from a variety of resale and facilities-based long distance carriers.

c) Interconnection Agreement with Stentor

Effective January 1, 1998, the Corporation, Stentor Resource Centre Inc. and each of the members of the Stentor alliance entered into new agreements for the continuing supply of services between the parties. The new agreements replaced or modified previously existing agreements. The agreed-upon terms include commitments by Stentor for the routing of certain proportions of Stentor's international traffic over the Corporation's switched network for the years 1998 to 2000, subject to the Corporation offering Stentor competitive pricing conditions. The parties also agreed on terms for the termination by Stentor in Canada of certain proportions of the Corporation's incoming international traffic for the years 1998 to 2000, subject to minimum price reductions by Stentor in 1998 and other competitive pricing conditions.

Illustration: Marie-Hélène Sirois

19. Commitments and Contingencies (continued)

In addition, the parties entered into a new agreement with respect to the *Canada Direct*™ trademark and service, which will expire in 2002, and modified the terms of Stentor's supply to the Corporation of leased Canadian fiber ring facilities which form part of the Corporation's network. This agreement will expire in 2005. The main interconnection agreement is subject to the approval of the CRTC.

In September 1998, the eleven major telephone companies, members of the Stentor Alliance, announced a restructuring of Stentor effective January 1, 1999. Such restructuring has no material impact on the new agreements which were signed individually by each member company.

d) Carrier Agreements

The Corporation, through its EXCEL operations, currently has agreements with Frontier, IXC Long Distance Inc. and MCI WorldCom to provide switching services and network transmission of its long distance traffic. The agreements with IXC Long Distance Inc. and MCI WorldCom each contain minimum usage commitments, while the agreement with Frontier provides for Frontier to be the exclusive carrier for certain calling card calls and personal 800 service. The Corporation is currently meeting all minimum commitments under these contracts.

e) Network and Telecommunications Capacity Exchanges

From time to time, the Corporation enters into agreements to acquire telecommunications capacity rights from unrelated third parties in exchange for telecommunications capacity rights with regard to the Corporation's network. Certain exchange agreements provide for liquidated damages to be carried against the Corporation in the event the Corporation fails to deliver the telecommunications capacity in accordance with the agreed-upon timetables. The Corporation is currently meeting its obligations as required.

f) Other

Contractual commitments outstanding as of December 31, 1998 which relate to construction projects amounted to approximately $89.1 ($138.7 in 1997), including the Corporation's share in the various joint ventures.

The Corporation leases certain office equipment, office space and circuit capacity under operating leases. Total expenses for the years ended December 31, 1998, 1997 and 1996 were approximately $107.2, $84.8, and $73.1, respectively.

g) Contingencies

i) **Litigation**

On August 30, 1996, AT&T filed suit in the United States District Court for the District of Delaware against EXCEL and its subsidiaries, Excel Communications Marketing Inc. and Excel Telecommunications, Inc., alleging past and continued infringement of a single patent without specifying the amount of damages. The court granted summary judgement in favor of EXCEL on March 27, 1998. The court held that the patent is invalid because it relates to unpatentable subject matter under U.S. patent laws. On July 7, 1998, AT&T filed an appeal seeking to overturn the ruling. The oral argument on the appeal occurred on January 6, 1999. As of the date of the auditors' report, no ruling has been made by the Court of Appeals. Based upon the information available, the Corporation does not believe that these claims will have a material adverse effect on its results of operations or financial position; however, should an unfavorable outcome result in this matter, it could have a material adverse effect upon the Corporation's consolidated results of operations or financial position.

Various other lawsuits and claims are pending by and against the Corporation. It is the opinion of management and supported by counsel that final determination of these claims will not have a material adverse effect on the consolidated financial position or results of operations of the Corporation.

ii) **Other**

Various governmental agencies monitor direct selling activities, and EXCEL has occasionally been requested to supply information regarding its marketing plan to certain of such agencies. The Corporation believes that its network marketing system is in substantial compliance with laws and regulations of each state relating to direct selling activities.

iii) **Uncertainty Due to the Year 2000 Issue**

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effect of the Year 2000 Issue may be experienced before , on, or after January 1, 2000, and if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Corporation's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Corporation, including those related to customers, suppliers, or other third parties, will be fully resolved.

20. Segment Information

The Corporation manages its operations based on four strategic business units: TCC, EXCEL, Teleglobe World Mobility ("TWM") and Teleglobe Enterprises ("TE"). These units are segregated based on the different products and services that they provide. TCC provides on a worldwide basis international services, mainly telephone and data telecommunications and other services such as Internet connectivity, leased circuits as well as broadcast services. Revenues from Stentor are recorded in TCC. EXCEL provides mainly long-distance telecommunication services to both residential and commercial customers in the U.S. TWM includes the investment of the Corporation in the ORBCOMM digital satellite telecommunications system, which is accounted for on a proportionate consolidation basis. TE includes primarily the participation of the Corporation in the ownership of five cable ships accounted for on a proportionate consolidation basis, and Look Communications Inc., which is accounted for under the equity method. The accounting policies for the segments are the same as those followed by the Corporation as a whole (see Note 3). All intersegment transactions are eliminated upon consolidation.

The following tables present information about reported segment profits and assets as well as information by geographic area:

1998	TCC	EXCEL	TWM	TE	Unallocated amounts	Total
Revenues						
Telephony – Canadian outbound	$ 669.2	$ –	$ –	$ –	$ –	$ 669.2
Telephony – International market						
Canadian inbound	271.8	–	–	–	–	271.8
Global	987.3	–	–	–	–	987.3
Telephony U.S. – presubscribed and casual calling	–	280.0	–	–	–	280.0
Telephony U.S. – commercial	–	37.8	–	–	–	37.8
Telephony U.S. – wholesale	–	24.2	–	–	–	24.2
Transmission and data	299.0	–	–	–	–	299.0
Marketing services	–	15.4	–	–	–	15.4
Other	–	–	–	27.2	–	27.2
Total	2,227.3	357.4	–	27.2	–	2,611.9
Interest expense	33.3	5.8	0.3	7.7	2.4	49.5
Interest and other income	7.0	0.1	–	1.5	7.0	15.6
Depreciation and amortization	134.9	22.8	2.9	7.4	3.0	171.0
Unusual items	–	–	(23.4)	9.1	–	(14.3)
Equity in income of affiliated companies	–	–	0.7	–	–	0.7
Segment profit	340.2	(38.9)	(0.2)	2.7	(7.9)	295.9
Income taxes	–	–	–	–	(96.5)	(96.5)
Extraordinary item, net	265.6	–	–	–	–	265.6
Net income (loss)	74.6	(38.9)	(0.2)	2.7	(104.4)	(66.2)
Segment assets	1,714.1	6,522.5	657.9	132.3	45.3	9,072.1
Investments at equity	–	–	(9.4)	34.7	11.5	36.8
Capital expenditures, including intangibles	461.8	5,398.8	119.7	0.2	0.9	5,981.4

20. Segment Information (continued)

1997	TCC	TWM	TE	Unallocated amounts	Total
Revenues					
Telephony – Canadian outbound	$ 748.2	$ –	$ –	$ –	$ 748.2
Telephony – International market					
Canadian inbound	330.2	–	–	–	330.2
Global	776.3	–	–	–	776.3
Transmission and data	106.0	–	–	–	106.0
Other	–	–	27.2	–	27.2
Total	1,960.7	–	27.2	–	1,987.9
Interest expense	32.7	0.5	7.7	2.1	43.0
Interest and other income (expense)	3.5	(4.6)	2.4	6.3	7.6
Depreciation and amortization	117.2	3.1	6.3	3.0	129.6
Unusual items	114.8	24.5	–	(121.6)	17.7
Equity in losses of affiliated companies	–	(0.7)	(0.9)	–	(1.6)
Segment profit (loss)	122.3	(20.3)	13.6	113.1	228.7
Income taxes	–	–	–	(110.3)	(110.3)
Income from discontinued operations, net	–	–	–	3.7	3.7
Gain on disposal of discontinued operations, net	–	–	–	18.4	18.4
Net income (loss)	122.3	(20.3)	13.6	24.9	140.5
Segment assets	1,756.1	347.8	113.8	366.3	2,584.0
Investments at equity	–	7.6	6.3	–	13.9
Capital expenditures, including intangibles	145.0	77.2	–	0.5	222.7

1996	TCC	TWM	TE	Unallocated amounts	Total
Revenues					
Telephony – Canadian outbound	$ 702.0	$ –	$ –	$ –	$ 702.0
Telephony – International market					
Canadian inbound	361.6	–	–	–	361.6
Global	399.2	–	–	–	399.2
Transmission and data	52.2	–	–	–	52.2
Other	–	19.0	28.7	–	47.7
Total	1515.0	19.0	28.7	–	1,562.7
Interest expense	27.0	0.2	8.0	11.0	46.2
Interest and other income	8.0	0.6	0.1	3.1	11.8
Depreciation and amortization	150.8	2.9	6.8	2.9	163.4
Equity in losses of affiliated companies	–	(0.3)	(1.1)	–	(1.4)
Segment profit (loss)	181.6	5.1	10.9	(18.0)	179.6
Income taxes	–	–	–	(72.0)	(72.0)
Income from discontinued operations, net	–	–	–	4.9	4.9
Net income (loss)	181.6	5.1	10.9	(85.1)	112.5
Segment assets	1,607.2	299.0	101.9	302.3	2,310.4
Investments at equity	–	8.6	1.8	–	10.4
Capital expenditures, including intangibles	71.9	58.7	1.6	1.1	133.3

20. Segment Information (continued)

Geographic information	Canada	United States	Other	Total
1998				
Revenues	**$704.4**	**$ 778.1**	**$1,129.4**	**$2,611.9**
Property, plant and equipment	**541.7**	**1,186.2**	**138.6**	**1,866.5**
Intangibles	**56.6**	**5,416.4**	**–**	**5,473.0**
1997				
Revenues	689.1	388.1	910.7	1,987.9
Property, plant and equipment	863.5	354.4	49.1	1,267.0
Intangibles	83.7	6.3	–	90.0
1996				
Revenues	720.7	103.0	739.0	1,562.7
Property, plant and equipment	883.6	220.6	3.4	1,107.6
Intangibles	93.1	48.5	–	141.6

Revenues are attributed to different countries based on the point of origination of the telecommunications traffic. The reportable segments have changed and the corresponding items for prior years have been reclassified.

Illustration: Marie-Hélène Sirois

Quarterly Results of Operations (Unaudited)

The following table includes summarized quarterly financial data for each of the four quarters of 1998 and 1997. This quarterly information is unaudited, has been prepared on the same basis as the annual financial statements, and, in the opinion of the Corporation's management, reflects all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the information for the periods presented. Operating results for any quarter are not necessarily indicative of results for any future period.

1998

(In millions of Canadian dollars, except share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenues	$ 533.5	$ 574.8	$ 550.1	$ 953.5
Total operating expenses	458.9	491.2	449.5	883.2
Operating income	74.6	83.6	100.6	70.3
Income from continuing operations before income taxes and extraordinary item	68.0	76.4	98.1	53.4
Provision for income taxes	28.6	31.4	32.9	3.6
Income from continuing operations before extraordinary item	39.4	45.0	65.2	49.8
Extraordinary item, net	–	–	–	265.6
Net income (loss)	39.4	45.0	65.2	(215.8)
Preferred dividends	(1.7)	(1.7)	(1.7)	(1.7)
Net income (loss) to common shareholders	37.7	43.3	63.5	(217.5)
Basic earnings per share				
Continuing operations	$ 0.29	$ 0.33	$ 0.49	$ 0.24
Extraordinary item, net	–	–	–	(1.34)
Net income (loss) to common shareholders	0.29	0.33	0.49	(1.10)
Basic weighted average common shares	129,751,858	129,316,107	129,337,762	197,665,235
Diluted earnings per share				
Continuing operations	$ 0.29	$ 0.33	$ 0.37	$ 0.24
Extraordinary item, net	–	–	–	(1.34)
Net income (loss) to common shareholders	0.29	0.33	0.37	(1.10)
Diluted weighted average common shares	133,375,508	132,905,212	136,319,722	197,665,235
Dividends per common share	$ 0.075	$ 0.085	$ 0.085	$ 0.085

Quarterly Results of Operations (Unaudited) (continued)

1997

(In millions of Canadian dollars, except share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenues	$ 422.6	$ 474.7	$ 514.1	$ 576.5
Total operating expenses	368.4	407.6	438.5	507.7
Operating income	54.2	67.1	75.6	68.8
Income from continuing operations before income taxes	44.5	55.6	69.9	58.7
Provision for income taxes	18.0	25.5	31.4	35.4
Income from continuing operations	26.5	30.1	38.5	23.3
Income from discontinued operations, net	–	3.7	–	–
Gain on disposal of discontinued operations, net	–	–	–	18.4
Net income	26.5	33.8	38.5	41.7
Preferred dividends	(1.7)	(1.7)	(1.7)	(1.7)
Net income to common shareholders	24.8	32.1	36.8	40.0
Basic earnings per share				
Continuing operations	$ 0.22	$ 0.22	$ 0.28	$ 0.17
Discontinued operations, net	–	0.03	–	0.14
Net income to common shareholders	0.22	0.25	0.28	0.31
Basic weighted average common shares	116,111,834	126,851,988	129,940,686	129,929,170
Diluted earnings per share				
Continuing operations	$ 0.20	$ 0.22	$ 0.28	$ 0.16
Discontinued operations, net	–	0.02	–	0.14
Net income to common shareholders	0.20	0.24	0.28	0.30
Diluted weighted average common shares	132,562,532	132,559,246	132,565,516	133,273,344
Dividends per common share	$ 0.060	$ 0.075	$ 0.075	$ 0.075

Illustration: Marie-Hélène Sirois

Selected Financial Data

The following table sets forth selected consolidated financial data relating to the Corporation for each of the years between 1994 and 1998, inclusively.

For the years ended December 31,
(In millions of Canadian dollars, except share data and minute data and number of employees)

	1998	1997	1996	1995	1994
Total revenues	$ 2,611.9	$ 1,987.9	$ 1,562.7	$ 1,398.3	$ 1,364.8
Total operating expenses	2,282.8	1,722.2	1,347.3	1,242.3	1,241.5
Operating income	329.1	265.7	215.4	156.0	123.3
Income from continuing operations before income taxes and extraordinary item	295.9	228.7	179.6	122.6	111.6
Provision for income taxes	96.5	110.3	72.0	56.5	42.8
Income from continuing operations before extraordinary item	199.4	118.4	107.6	66.1	68.8
Income from discontinued operations, net	–	3.7	4.9	23.3	15.8
Gain on disposal of discontinued operations, net	–	18.4	–	–	–
Income before extraordinary item	199.4	140.5	112.5	89.4	84.6
Extraordinary item, net	265.6	–	–	–	–
Net income (loss)	(66.2)	140.5	112.5	89.4	84.6
Preferred dividends	(6.8)	(6.8)	(6.8)	(6.8)	(5.4)
Net income (loss) to common shareholders	(73.0)	133.7	105.7	82.6	79.2
Basic earnings per share					
Continuing operations before extraordinary item	$ 1.31	$ 0.89	$ 0.86	$ 0.50	$ 0.54
Discontinued operations, net	–	0.17	0.04	0.20	0.14
Extraordinary item, net	(1.81)	–	–	–	–
Net income (loss) to common shareholders	(0.50)	1.06	0.90	0.70	0.68
Basic weighted average common shares	146,654,929	125,757,054	116,595,410	116,364,134	116,158,860
Diluted earnings per share					
Continuing operations before extraordinary item	$ 1.23	$ 0.85	$ 0.80	$ 0.50	$ 0.52
Discontinued operations, net	–	0.17	0.04	0.16	0.10
Extraordinary item, net	(1.81)	–	–	–	–
Net income (loss) to common shareholders	(0.50)	1.02	0.84	0.66	0.62
Diluted weighted average common shares	161,640,285	133,324,162	133,502,532	146,847,318	146,055,250
Dividends per common share	$ 0.33	$ 0.29	$ 0.23	$ 0.20	0.18
Total assets	9,072.1	2,584.0	2,310.4	2,080.3	1,934.4
Long-term debt	1,250.8	615.3	798.5	684.0	666.9
Shareholders' equity	6,379.2	1,114.5	939.2	873.5	811.7
Number of employees	5,351	1,204	1,882	1,804	1,899
Telephone traffic, in millions of minutes	5,139	2,800	2,033	1,614	1,469

Market price per common share*

	1998		1997	
	High	Low	High	Low
Montreal and Toronto (in Canadian dollars)				
First quarter	$32.93	$20.70	$21.33	$18.63
Second quarter	42.40	31.05	27.50	19.30
Third quarter	44.95	36.20	28.00	21.78
Fourth quarter	56.00	31.50	26.25	20.50
New York (in US dollars)				
First quarter	$23.03	$14.56	$ N.A.	$ N.A.
Second quarter	29.38	21.63	19.88	16.25
Third quarter	29.38	23.63	20.32	15.88
Fourth quarter	36.00	19.44	19.02	15.00

*1998 and 1997 figures have been adjusted to reflect the two-for-one stock split effected June 15, 1998.

Illustration: Marie-Hélène Sirois

TELEGLOBE

Teleglobe Inc.
1000 de la Gauchetière Street West
Montréal, Québec
H3B 4X5

Printed on recycled paper

The Teleglobe Foundation

Illustration: Marie-Hélène Sirois

The Teleglobe Foundation*, a non-profit organization established in 1992, provides financial assistance to individuals and groups that initiate creative activities and projects aimed at developing closer ties between senior citizens and children.

The Foundation financially supports several projects that bring seniors and children together in a spirit of mutual understanding and assistance. This benefits the children, who otherwise don't always get the stimulation they need, as well as the seniors, who enjoy being surrounded by lively, enthusiastic youngsters and who like nothing better than an opportunity to share their wealth of knowledge and experience. As these two generations come into contact, a climate of trust develops that is conducive to forming a special bond.

The Teleglobe Foundation pays special attention to small organizations that put forward projects based on volunteer work and mutual aid. It also attaches a great deal of importance to the duration of the projects, because time is obviously a key factor in forging meaningful ties between seniors and children.

Teleglobe Foundation
1000 de La Gauchetière Street West
Montréal (Québec) H3B 4X5
Telephone: (514) 868-7644
Fax: (514) 868-8144

Revenue Canada registration no: 88634 6287 RR 001

Inside this flap you will find Management's Discussion and Analysis and the consolidated financial statements of Teleglobe Inc. prepared in Canadian dollars in accordance with generally accepted accounting principles in Canada (Canadian GAAP).

TELEGLOBE